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1. The first part of the report is a general statement of the purpose and scope of the study. It is followed by a brief review of the literature on the subject.

2. The second part of the report is a description of the methods used in the study. This includes a discussion of the subjects, the experimental design, and the data collection procedures.

3. The third part of the report is a presentation of the results of the study. This includes a discussion of the main findings and a comparison of the results with those of previous studies.

4. The fourth part of the report is a discussion of the implications of the findings. This includes a discussion of the theoretical and practical significance of the results and a suggestion for further research.

5. The fifth part of the report is a conclusion. This summarizes the main findings of the study and states the author's conclusions.

6. The sixth part of the report is a list of references. This includes a list of all the sources cited in the report.

7. The seventh part of the report is an appendix. This includes a list of all the figures and tables included in the report.

8. The eighth part of the report is a glossary. This includes a list of all the terms used in the report and their definitions.

9. The ninth part of the report is a bibliography. This includes a list of all the books and articles cited in the report.

10. The tenth part of the report is an index. This includes a list of all the topics covered in the report and the pages on which they are discussed.

11. The eleventh part of the report is a list of figures. This includes a list of all the figures included in the report and a brief description of each.

12. The twelfth part of the report is a list of tables. This includes a list of all the tables included in the report and a brief description of each.

13. The thirteenth part of the report is a list of abbreviations. This includes a list of all the abbreviations used in the report and their full names.

14. The fourteenth part of the report is a list of symbols. This includes a list of all the symbols used in the report and their meanings.

15. The fifteenth part of the report is a list of footnotes. This includes a list of all the footnotes included in the report.

16. The sixteenth part of the report is a list of appendices. This includes a list of all the appendices included in the report.

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27. The twenty-seventh part of the report is a list of abbreviations. This includes a list of all the abbreviations used in the report and their full names.

28. The twenty-eighth part of the report is a list of symbols. This includes a list of all the symbols used in the report and their meanings.

29. The twenty-ninth part of the report is a list of footnotes. This includes a list of all the footnotes included in the report.

30. The thirtieth part of the report is a list of appendices. This includes a list of all the appendices included in the report.

Relevant Docket Entries
IN THE SUPERIOR COURT FOR THE STATE OF CALIFORNIA
IN AND FOR THE COUNTY OF LOS ANGELES
CIVIL CASE NO. 737,267

<u>DATE</u>	<u>LOCATION IN RECORD</u>	<u>DOCKET ENTRY</u>
January 5, 1960	(C.T. B-1)	Complaint filed
February 9, 1960	(C.T. B-25)	Answer of Lear, Incorporated filed
May 31, 1963	(C.T. 143)	Amended Answer filed
October 28, 1963	(C.T. 924)	Pretrial Conference held and Minute Order thereon filed
January 3, 1964	(C.T. 1125)	Joint Statement of Matters Agreed Upon for Regular Pretrial Hearing filed (lodged on October 22, 1963)
January 20, 1964	(C.T. 1400)	Pretrial Conference Order dated November 14, 1963 filed
January 20, 1964	(C.T. 1403)	Separate Statement of Plaintiff's Legal and Factual Contentions and of All Issues Remaining in Dispute filed (lodged on October 22, 1963)
January 20, 1964	(C.T. 1423)	Separate Statement of Defendant of Law and Motion Matters and of Agreed or Admitted Matters for Regular Pretrial Hearing filed (lodged on October 22, 1963)
January 20, 1964	(C.T. 1430)	Separate Statement of Defendant of Legal and Factual Contentions as to Issues Remaining in Dispute for Regular Pretrial Hearing filed (lodged on October 22, 1963)
January 29, 1964	(C.T. 1487)	Minute Order ordering that the lawsuit involves matters only to May 31, 1963 filed
February 4, 1964	(C.T. 1497)	Second Amended Answer of Lear, Incorporated filed
March 12, 1964	(C.T. 1614)	Jury partially impanelled and Minute Order thereon filed
March 13, 1964	(C.T. 1615)	Jury Impanelled and sworn and Minute Order thereon filed
Mar. 13 to April 9, 1964	(C.T. 1615-1626, 1638-1642, 1651, 1652, 1669)	Testimony given and Minute Orders during trial filed

<u>DATE</u>	<u>LOCATION IN RECORD</u>	<u>DOCKET ENTRY</u>
March 20, 1964	(C.T. B-165)	Notice of Appeal concerning apportionment of cost of audit filed by plaintiff
April 8, 1964	(C.T. 1653)	Notice of Motion for Leave to File An Amended Answer to Conform to Proofs During the Pendency of the Trial Herein filed
April 8, 1964	(C.T. 1652)	Minute Order granting defendant's Motion to File Amended Answer to Conform to Proofs filed
April 20, 1964	(C.T. 1712)	Jury partially instructed, partial final arguments by plaintiff and defendant, and Minute Order thereon filed
April 21, 1964	(C.T. 1713)	Plaintiff and defendant concluded final argument and Minute Order thereon filed
April 22, 1964 to May 1, 1964	(C.T. 1714 to 1721)	Jury deliberates, and Minute Orders thereon filed
May 1, 1964	(C.T. 1724)	Verdict filed
May 1, 1964	(C.T. 1722)	Defendant's Notice of Motion for an Order for a Judgment Notwithstanding the Verdict Made Before Entry of Judgment, and Reserving the Right to Move for a New Trial Pursuant to CCP 629 filed
May 4, 1964	(C.T. 1725)	Judgment on Verdict in Open Court entered
May 15, 1964	(C.T. 1947)	Notice of Motion for Order Granting New Trial in the Alternative for an Order for Judgment for Defendant Notwithstanding the Verdict filed
June 12, 1964	(C.T. 2075)	Defendant's Motion for Judgment Notwithstanding the Verdict, and New Trial called for hearing and Minute Order thereon filed
July 2, 1964	(C.T. 2079-2088 and 2078)	Rulings on Motions for Judgment Notwithstanding the Verdict and in the Alternative, for a New Trial and Minute Order thereon filed
July 3, 1964	(C.T. 2093)	Notice of Appeal concerning the directed verdict and the denial of Judgment Notwithstanding the Verdict with respect to the Model 2156 Gyro filed by defendant

<u>DATE</u>	<u>LOCATION IN RECORD</u>	<u>DOCKET ENTRY</u>
July 20, 1964	(C.T. 2089)	Judgment for Defendant Notwithstanding the Verdict filed
July 21, 1964	(C.T. 2106)	Notice of Appeal concerning the Judgment for defendant notwithstanding the verdict and the granting of a new trial filed by plaintiff
August 14, 1964	(C.T. 2365)	Notice of Appeal concerning the Minute Order dismissing plaintiff's second cause of action filed by plaintiff
August 21, 1964	(C.T. 2124)	Notice of Appeal from the Judgment on Verdict in Open Court filed by defendant
December 30, 1964	(C.T. 2388)	Amendment to Judgment entered
January 29, 1965	(C.T. 2389)	Notice of Appeal from the Amendment to Judgment filed by plaintiff
February 26, 1965	(C.T. 2450)	Notice of Appeal from the Amendment to Judgment with the exception of the dismissal of the second cause of action and a consolidation of previous notices of appeal filed by defendant

IN THE DISTRICT COURT OF APPEAL FOR THE
STATE OF CALIFORNIA 2ND CIVIL NOS.
28624, 29770, 30052, 30089

<u>DATE</u>	<u>DOCKET ENTRY</u>
December 7, 1965 to April 28, 1966	Briefs filed
May 12, 1966	Oral argument presented
August 8, 1966	Opinion filed
August 23, 1966	Petition for Rehearing by Plaintiff filed
August 23, 1966	Petition for Rehearing by Defendant filed
August 31, 1966	Lear's Answer to Adkins' Petition for Rehearing filed
August 31, 1966	Adkins' Answer to Lear, Incorporated Petition for Rehearing filed
September 2, 1966	Modification of Opinion and Denial of Petitions for Rehearing filed

IN THE SUPREME COURT OF THE STATE OF
CALIFORNIA L.A. NOS. 29204, 29205,
29206, AND 29207

<u>DATE</u>	<u>DOCKET ENTRY</u>
September 17, 1966	Petition for Hearing by Plaintiff filed
September 27, 1966	Lear's Answer to Adkins' Petition for Hearing filed
October 19, 1966	Order Granting Petition for Hearing filed
June 5, 1967	Oral argument
December 14, 1967	Opinion filed
December 29, 1967	Petition for Rehearing by Defendant filed
January 9, 1968	Answer to Petition for Rehearing filed
January 11, 1968	Petition for Rehearing denied
January 15, 1968	Remittitur issued
January 16, 1968	Application for Stay of Execution of Judgment Rendered by this Court on December 14, 1967, which Became Final on January 15, 1968 filed
January 22, 1968	Response to Application for Stay of Execution of Judgment filed
January 24, 1968	Order filed Granting the Application for Stay of the Enforcement of Orders and Judgments and staying the orders and Judgments providing a surety bond approved by a Superior Court judge is filed

IN THE SUPERIOR COURT FOR THE STATE OF
CALIFORNIA IN AND FOR THE COUNTY
OF LOS ANGELES CIVIL NO. 737,267

<u>DATE</u>	<u>RELEVANT DOCKET ENTRY</u>
January 17, 1968	Remittitur received from Supreme Court and filed
February 13, 1968	Surety Bond to Stay Enforcement of Orders and Judgments and the Decision of the Supreme Court of California approved and filed

**Complaint for Breach of Contract and
for Misappropriation.**

In the Superior Court of the State of California, in
and for the County of Los Angeles.

John S. Adkins, Plaintiff, vs. Lear, Incorporated, a
corporation; and Doe I through Doe X Companies, De-
fendants. No. 73726.

Filed Jan. 5, 1960.

Plaintiff complains of defendants as follows:

FIRST CAUSE OF ACTION

I

Plaintiff is a resident of the City of Santa Monica,
County of Los Angeles, State of California.

II

Defendant LEAR, INCORPORATED (hereinafter
"Lear") is a foreign corporation, duly organized and
existing under and by virtue of the laws of the State
of Illinois, and has a regular and established place of
business in the County of Los Angeles, State of Cali-
fornia.

III

Defendants DOE I through DOE X COMPANIES
are sued herein by said names which are fictitious for
the reason that their true names and status are unknown
to plaintiff, and plaintiff asks leave and permission of
the court to amend his complaint by inserting the true
names and states of said fictitious defendants when the
same are ascertained. Plaintiff is informed and be-
lieves, and therefore alleges, that said fictitious de-
fendants or one or more of them were authorized, li-
censed or permitted by defendant Lear to make, manu-

facture and sell the products, royalties on which under the terms of the agreement hereinafter set forth are payable and owing to plaintiff.

IV

Under date of December 29, 1951, plaintiff and defendant Lear entered into a written agreement providing, among other things, for the issuance of a license from plaintiff to defendant Lear, for the manufacture by Lear of vertical gyros on a mutually satisfactory royalty basis from defendant Lear to plaintiff. A true and correct copy of said 1951 agreement is attached hereto as Exhibit I and is incorporated herein by this reference.

V

Within a few days after the making of said 1951 agreement, plaintiff was employed by defendant Lear and remained in such employ until February 1, 1958.

VI

Under date of September 15, 1955, while plaintiff was so employed by defendant Lear, plaintiff and defendant Lear entered into an extensive written license agreement implementing and supplementing said 1951 agreement. True and correct copy of said September 15, 1955 agreement (except for the exhibits thereto) is attached hereto as Exhibit 2 and is incorporated herein by this reference. Defendant Lear has in its possession copies of the exhibits to said Exhibit 2 which exhibits are voluminous and bulky. Said exhibits will be delivered for filing in court at such time as their use becomes necessary.

VII

Under the provision of said 1955 agreement, defendant Lear agreed, among other things, to pay plain-

tiff a royalty of $1\frac{1}{4}\%$ of the net sales price received by Lear or by entities controlled by Lear from products incorporating the inventions of plaintiff, as more specifically described in said 1955 agreement.

VIII

From and after September 15, 1955, to the date hereof, defendant Lear has manufactured and sold products, and continues to manufacture and sell products, for which royalties are payable to plaintiff, as set forth in said 1955 agreement.

IX

During and prior to the period of plaintiff's said employment with defendant Lear, plaintiff conceived, created and devised the inventions, ideas and discoveries referred to in said agreements of 1951 and 1955, and plaintiff made the same available to defendant Lear and said defendant became, was and is thoroughly familiar therewith.

X

Beginning on or about September 10, 1957, and continuing thereafter until the date hereof, defendant Lear has breached the aforesaid 1955 agreement in at least the following respects:

1. Said defendant, either alone or together with companies controlled by it (as defined in said 1955 agreement) has sold numerous products for which royalties are required to be paid to plaintiff, but has failed and refused to pay the same.

2. Said defendant has failed to account to plaintiff for such royalties and for such products as required under the terms of said 1955 agreement.

3. Said defendant has failed, neglected and refused to maintain its books and records and to make the same available for plaintiff's inspection, as provided in said agreement.

4. Said defendant has failed, refused and neglected to cure its aforesaid breaches, despite due and frequent notice thereof given to said defendant by plaintiff.

XI

Under date of April 8, 1959, defendant Lear purported to terminate said 1955 agreement, but nonetheless and in breach of plaintiff's rights, defendant Lear has continued and still continues to manufacture and sell products for which royalties are required to be paid to plaintiff, as provided in said 1955 agreement, but said defendant has failed and refused so to pay the same.

XII

Plaintiff has done everything on his part to be performed under said agreement except as his performance thereunder may have been excused or waived.

XIII

The aforesaid breaches by defendant Lear have resulted in damages to plaintiff in an amount which plaintiff cannot state with precision by reason of the fact that the primary records and data are in the possession of defendant Lear, but, as plaintiff is informed and believes and therefore alleges, is in excess of the sum of \$100,000, no part of which sum has been paid and all of which is now due, owing and unpaid from defendant Lear to plaintiff.

XIV

Plaintiff further alleges that he will continue to suffer and incur damages from and after the date of filing hereof and that at the time of trial plaintiff be permitted to supplement this complaint to include such further damages which have accrued to the time of trial.

SECOND CAUSE OF ACTION

XV

Plaintiff refers to paragraphs I to XII, inclusive, of his first cause of action and incorporates each and all of the allegations of said paragraphs herein by this reference.

XVI

From the time of the making of the 1951 agreement to the termination of plaintiff's employment with defendant Lear in 1958, said defendant became thoroughly familiar with the new ideas, discoveries and inventions owned by plaintiff and related to the gyros to be fabricated by said defendant Lear.

XVII

During the course of plaintiff's lengthy employment with said defendant, a confidential relationship between plaintiff and said defendant came into being and existed by reason of the said employment relationship between the parties, the length thereof, and the nature of the field in which plaintiff and his said employer were working.

XVIII

In violation of plaintiff's ownership rights in said new ideas, discoveries and inventions and in violation of the confidential relationship between the parties, defendant Lear used, appropriated and profited from

plaintiff's said new ideas, discoveries and inventions and has failed and refused to pay plaintiff the reasonable value thereof.

XIX

By reason of said improper and illegal conduct of defendant Lear, plaintiff has been injured in the sum of \$250,000, no part of which sum has been paid and the whole of which is now due, owing and unpaid.

XX

In doing the aforesaid illegal acts, defendant Lear was and is guilty of oppression and fraud, and plaintiff alleges and claims that, in addition to his actual damages, he is entitled to \$250,000 in damages for the sake of example and by way of punishing said defendant Lear.

WHEREFORE, plaintiff prays judgment as follows:

1. For his damages under his first cause of action in such sum as may later be determined, but not less than \$100,000;
2. For the sum of \$250,000 in actual damages under his second cause of action, plus the sum of \$250,000 as and for exemplary damages thereunder.
3. For plaintiff's costs of suit and for such other and further relief as may be proper and just.

Fulwider, Mattingly & Huntley
Beilenson, Meyer, Rosenfeld & Susman
By /s/ Walter P. Huntley
Attorneys for Plaintiff

EXHIBIT 1 (to the Complaint)

LEAR, Incorporated
LearCal Division

11916 West Pico Blvd.
Los Angeles 64, Calif.

December 29, 1951

AGREEMENT BETWEEN LEAR, INC. AND
JOHN S. ADKINS

This agreement pertains to vertical gyros which are to be fabricated at Lear, Inc., under the supervision of John S. Adkins.

All physical instruments fabricated shall become the property of Lear, Inc.

All new ideas, discoveries, inventions, etc., related to said vertical gyros become the property of Mr. John S. Adkins.

Mr. John S. Adkins agrees to license Lear, Inc. to manufacture said vertical gyros on a mutually satisfactory royalty basis.

SIGNED:

/s/ Wm. P. Lear

Wm. P. Lear

For Lear, Incorporated

/s/ John S. Adkins

John S. Adkins

EXHIBIT 2 (to the Complaint)

AGREEMENT

THIS AGREEMENT, made and entered into this 15th day of Sept. 1955, by and between JOHN S. ADKINS of Santa Monica, California, hereinafter referred to as "Adkins" and LEAR, INCORPORATED, a corporation of Illinois, hereinafter referred to as "Lear."

WITNESSETH:

(A) WHEREAS, Adkins represents and warrants that he owns United States Letters Patent No. 2,542,975, issued to him on February 27, 1951, for an Erecting Mechanism for Reducing Turn Errors in Vertical Gyroscopes, subject to a reservation that the invention described therein may be manufactured and used by or for the Government of the United States for governmental purposes without the payment of any royalty thereon, a copy of which Letters Patent is hereto attached and hereafter referred to as Exhibit "A" and incorporated herein as a part hereof; and Adkins represents that there are no outstanding licenses or agreements that prevent him from entering into a license agreement with respect to said Patent and the inventions covered therein, all as hereafter set forth; and

(B) WHEREAS, Adkins represents and warrants that to the best of his knowledge and belief he is the owner of the inventions covering the substantial claims as disclosed or intended to be disclosed in the Application for U. S. Patent on gyroscopes attached hereto and hereafter referred to as Exhibit "B" and incorporated herein as a part hereof, which application was filed on February 15, 1954, and is presently pending in

the United States Patent Office and that there are no licenses or agreements outstanding which prevent him from granting unto Lear an exclusive license respecting said inventions and products embodying said inventions, in accordance with the further provisions hereof, and

(C) WHEREAS, Adkins represents and warrants that to the best of his knowledge and belief he is the owner of the inventions disclosed or intended to be disclosed for a no-gimbal lock feature for a gyroscope as set forth in Disclosure I attached hereto and hereafter referred to as Exhibit "C" and incorporated herein as a part hereof, and that there are no licenses or agreements outstanding which prevent him from granting unto Lear an exclusive license respecting said inventions and products embodying said inventions, in accordance with the further provisions hereof; and

(D) WHEREAS, Lear is to acquire a non-exclusive license under said Exhibit "A" hereof and an exclusive license under any and all applications for patents and patents claiming the subject matter referred to in Exhibits "B" and "C" hereof, to manufacture and sell products embodying the respective inventions of said Exhibits "A", "B" and "C".

NOW, THEREFORE, in consideration of the foregoing and \$500.00 in hand paid, receipt whereof is hereby acknowledged, and of the covenants and conditions hereinafter contained, it is hereby agreed by and between the parties hereto as follows:

1. DEFINITIONS:

(a) The phrase Exhibit "A", as used in this agreement shall be deemed to refer to and include United

States Letters Patent No. 2,542,975 and all renewals, extensions and reissues thereof, issued on the subject matter of said letters patent and all improvements thereof.

(b) The phrase Exhibit "B" as used in this Agreement shall be deemed to refer to and include the application for United States Letters Patent filed on February 15, 1954, attached hereto, and all continuations and divisions thereof, and all patents issued or issuing thereon to Adkins with respect to the inventions disclosed or intended to be disclosed therein and all improvements thereof, and all renewals, extensions, reissues of any patents issued pursuant thereto.

(c) The phrase Exhibit "C" as used in this Agreement shall be deemed to refer to and include Disclosure I attached hereto and all applications for United States Letters Patent filed with respect to the inventions disclosed or intended to be disclosed therein, and all improvements thereon and all continuations and divisions of all such applications and all patents issued or issuing with respect thereto and all renewals, extensions, and reissues thereof.

(d) The Term "said inventions" as used in this Agreement shall include (1) all claims and inventions disclosed or claimed in said Exhibit "A", and (2) all claims and inventions disclosed or intended to be disclosed in said Exhibit "B" and (3) all claims and inventions disclosed or intended to be disclosed in said Exhibit "C", but only to the extent that such claims or inventions mentioned in said Exhibits are patented or patentable by Adkins.

(e) The term "gyro assembly" as used herein is defined as the cased instrument which intimately con-

tains the gyro structure and other appurtenances necessary for proper operation of the gyro structure, all of which are included within the gyro assembly case. The term "gyro structure" as used herein is defined as the high-speed gyro rotor, gimbals, frame and attachments thereto.

(f) The term "gyro system" as used herein is defined as the "gyro assembly" and components or accessories necessary to produce earth and/or aircraft gyro signals for use by other equipment such as indicators, autopilots, bombing systems, fire control systems, etc., which such other equipment such as indicators, autopilots, bombing systems, fire control systems, so using the gyro system signals shall not be considered as part of the gyro system.

(g) In determining whether any particular component or accessory constitutes a part of the gyro assembly or gyro system, the test shall be to ascertain whether removal of the particular component or accessory affects the accuracy of the gyro assembly or gyro system signals. If removal does affect the accuracy of the gyro assembly or gyro system signal, the component or accessory removed shall be deemed a part of the gyro assembly or the gyro system, but if removal does not affect the accuracy of such signal, then it shall not be deemed a part of the gyro assembly or gyro system.

(h) Whenever in this Agreement the words "claim", "claims", "invention", or "inventions" are used, in accordance with the context of the terms of the Agreement, the plural shall apply to the singular or the singular shall apply to the plural.

2. GRANT.

(a) Subject to the provisions for termination hereinafter set forth, Adkins hereby gives and grants unto Lear (1) a non-exclusive right and license under all the claims of said Exhibit "A" and (2) an exclusive license under all the claims of said Exhibits "B" and (3) an exclusive license under all the claims of said Exhibit "C", to manufacture or have manufactured for it, use and sell products and parts and components thereof (including gyros, gyro systems, gyro apparatus and gyro mechanisms) covered by or containing one or more or all of the inventions and any patents issued or hereafter issued thereon and any divisions, continuations or reissues thereof, and all modifications and improvements thereof, throughout the United States and all foreign countries; it is understood, however, that whenever the word "claims" is used in this paragraph it shall mean the claims in the respective Exhibits which have been patented or will be patentable by Adkins. Lear shall have the right on ninety days' prior written notice to Adkins, to terminate any one or more of the licenses herein granted.

(b) Lear at its option and expense may, for and in the name of Adkins, file applications for patents in any foreign countries for any of the inventions licensed herein except those under Exhibit "A". In the event Adkins desires to have an application for a patent respecting such inventions filed in any designated foreign country he shall so notify Lear in writing. Lear shall thereupon have ninety days from and after receipt of such notice, to determine whether it wishes to file such application in the country designated; and if within said period it so files at its expense, it shall retain and

have the exclusive right and license to use said inventions in the manufacture and sale of products embodying such inventions in such foreign country. However, if it elects not to so file an application and thereafter Adkins files an application in such foreign country at his expense, then from and after the date of the issuance of the patent, Lear shall have a non-exclusive right and license to use the inventions described in said patent so issued, in the manufacture and sale of products embodying such inventions in such foreign country.

(c) This agreement shall continue in force and effect until the expiration of the last to expire of any patent now or hereafter issued and related to the subject matter of this agreement, including all continuations, renewals, extensions and reissues thereof, unless terminated sooner by act of the parties pursuant to the provisions hereof.

3. ROYALTIES.

(a) While one or more of the licenses granted under this Agreement is in effect, Lear agrees to pay Adkins with respect to products incorporating said inventions manufactured and sold under those licenses that are in effect, royalties of $1\frac{1}{4}\%$ based on net sales prices as hereinafter in sub-paragraphs (c), (d) and (j) defined, received by Lear for said products, it being understood that said rate shall be paid only on products incorporating one or more or all of said inventions.

(b) No royalties shall be computed or paid on account of the manufacture by or for or sale to, on behalf of, or for the use of the U. S. Government, of products which incorporate only the inventions disclosed in or covered by Exhibit "A".

(c) Net sales prices on which royalties are payable shall be the final sales price established for the products sold after price adjustment or price redetermination whether voluntarily or by contract. In the case of cost reimbursement contracts, the final price shall be the costs finally allowed and paid to Lear. In the event the final price is higher than the initial or interim price, Lear will pay to Adkins the additional royalties due him upon determination of such final higher price. In the event the final price is lower than the initial or interim price, Lear shall deduct from future royalties thereafter payable to Adkins, an amount equal to 25% of each future royalty payment subsequently becoming due, until it shall have received the full amount of the excess royalties theretofore paid to Adkins.

(d) Net sales prices with respect to the sales of products incorporating inventions licensed hereunder and also containing other assemblies or components in addition thereto which do not incorporate the said inventions, shall for the purposes of determining royalties payable to Adkins, be the price established in each such contract for the "gyro assembly" or "gyro system" as hereinbefore defined which incorporates the inventions herein licensed. Where no separate price is established in any such contract for the "gyro assembly" or "gyro system", net sales price of such "gyro assembly" or "gyro system" shall be the price charged by Lear, under each such contract, for a spare "gyro assembly" or "gyro system" which incorporates the inventions herein licensed. Where there is no price established for such gyro assembly or gyro system in any such contract, either initially or as a spare part, then the net sales price of the gyro assembly or gyro system on

which royalties are paid, shall be that part of the price of the entire product, which the cost of manufacture of the gyro assembly or gyro system incorporating the inventions, bears to the cost of manufacture of the entire product.

The following specific examples will serve to illustrate the method of determining which items shall be included in computing net sales price on which royalties are based:

(1) In a VGI utilizing any one or more of the inventions, the royalty shall be computed on the net sales price of the "gyro system" which is the Type K-4 control. The indicator is not included in computation of net sales price since if the indicator is removed, the accuracy of the gyro system signals would not be affected.

(2) In compass systems, such as the Lear Type 1284, utilizing any one or more of the inventions, the royalty shall be computed on the net sales price of the complete "compass system", except for the earth's magnetic detector and the indicators, since if the earth's magnetic detector and indicator are removed, the accuracy of the gyro assembly signals as such would not be affected.

(3) In indicator systems such as the NAFLI, utilizing any one or more of the inventions, the royalty shall be computed on the net sales price of the "gyro assembly." The basic purpose of the NAFLI system is to provide indication, and the system other than the "gyro assembly" will not be included in the amount on which the royalty is computed, since if all components of the NAFLI system other than the "gyro assembly" are removed, the accuracy of the "gyro assembly" signals as such would not be affected.

(4) In auto pilots such as the Type F-5, utilizing any one or more of the inventions, the royalty shall be computed on the net sales price of the "gyro assembly." The basic purpose of the F-5 auto pilot is to control the aircraft, and the system other than the "gyro assembly" will not be included in the amount on which the royalty is computed, since if all components of the F-5 auto pilot other than the "gyro assembly" are removed, the accuracy of the "gyro assembly" signals as such would not be affected.

(e) It is specifically recognized and agreed by the parties hereto that prior to January 1, 1955, no sales were made by Lear of any products under the licenses herein granted or subject to royalty as herein provided. Lear shall submit to Adkins a full and correct statement of the net sales prices received on all sales by it of products subject to royalty under the licenses herein granted which are then in effect during each quarter-annual period beginning January 1, 1955. For the purposes of this Agreement, quarter-annual periods are defined as follows: the first quarter-annual period shall be the months of January, February, March; the second shall be April, May, and June; the third, July, August, and September; and the fourth, October, November, and December. Lear shall submit the said statement for each quarter-annual period within sixty days after the end of each quarterly period, that is, within sixty days after March 31st, June 30th, September 30th and December 31st of each year, and each statement submitted shall be accompanied by payment in full for royalties shown due. The first such statement to be made under this Agreement shall be submitted to Adkins within sixty days after Sept. 15, 1955, covering

the period from January 1, 1955, through Sept. 30, 1955.

(f) If any products subject to royalty are sold by Lear to any person, firm, or corporation in which Lear has any direct or indirect pecuniary interest in excess of 50% of the total capital and surplus of such person, firm, or corporation, and said products shall be resold by said purchaser at a price greater than Lear's sales price, then in the computation of royalties due hereunder, the net resale price received by said purchaser on resales of said products shall be taken as Lear's net sales prices received for said products.

(g) Unless this Agreement is sooner terminated as herein provided, Adkins shall be entitled to receive a minimum royalty in the sum of \$250.00 upon execution hereof, and on January 1, 1956, and a minimum royalty in the sum of \$500.00 on January 1, 1957, and on January 1st of each year thereafter that this Agreement is in effect, on account of each of the following groups of products manufactured and sold by Lear, (provided the Licenses as to Exhibits A, B, and C, respectively, are in force and effect), (a) embodying the inventions of Exhibit "A"; (b) embodying the inventions disclosed or intended to be disclosed in Exhibit "B" and (c) embodying the inventions disclosed or intended to be disclosed in Exhibit "C". The payments made under this paragraph shall be applied as a credit in reduction of the royalty payments due Adkins under this Paragraph 3, for such year. If said minimum royalties are not paid, then the only right of Adkins shall be to cancel, such one of the Licenses herein granted, for which minimum royalty payments as above provided for have not been paid by Lear. After receipt

of notice of cancellation of such License, Lear shall have no further right to manufacture products incorporating the inventions disclosed under such cancelled License, except that Lear may for a period of ninety days from and after such notice of cancellation complete the manufacture and sell any of such products then in process or on hand, and Adkins shall receive his royalty on all of such products as in Paragraph 3 hereof provided. Nothing herein set forth shall be deemed to obligate Lear to manufacture, produce or sell any products embodying inventions described and set forth in Exhibits "A", "B" and "C" hereof. If during any one full year beginning after January 1, 1959, the total annual net sales prices of products sold embodying said inventions as herein defined, either separately or in combination, do not exceed \$35,000.00 under the licenses herein granted, then unless such failure is the result of war, act of God, strikes, national emergency, governmental rules or regulations or any other cause beyond Lear's control, said licenses with respect to inventions contained in Exhibits "B" and "C" shall thereafter become non-exclusive licenses instead of exclusive licenses as herein granted.

(h) If under the terms hereof Lear cancels its license under the inventions contained in Exhibit "C", then the license granted with respect to the inventions contained in Exhibit "B" shall continue as an exclusive license. In such event Adkins shall thereafter have the right to use and to license others to use, the inventions contained in said Exhibit "B" but only in products which also embody in combination the inventions disclosed in Exhibit "C". Adkins, however, shall have no right to use or to license others to use the inventions

contained in Exhibit "B" in the manufacture or sale of any products unless such products also incorporate the inventions disclosed in Exhibit "C".

(i) deleted.

(j) The term "net sales price" wherever used herein shall not include the amount of any tax, insurance, duty, packing, shipping, or crating charge or any other similar items, which are separately indicated and charged in the agreement or invoice, or of which written notice is given to Adkins.

4. BOOKS AND REPORTS

Lear agrees to keep accurate and complete books and reports showing in detail all said products made and sold by it under the licenses herein granted, and agrees that said books and records relating only to sales of said products shall be open for inspection, subject to any security regulations of the United States Government, by Adkins or a Certified Public Accountant selected by him, during normal business hours, but no oftener than twice a year. In the event that any royalty payment is based upon Lear's cost of manufacture, as in Paragraph 3(d) hereof provided, then in such event Adkins shall have the right, subject to any security regulations of the United States Government, to be exercised only once with respect to any such royalty computation, to inspect Lear's books and records relating only to the cost of manufacture of that specific product, the royalty for which was computed upon Lear's manufacturing cost. Adkins agrees that neither he nor such Certified Public Accountant selected by him will disclose to any person, firm, company, or corporation any information or knowledge which may be obtained from

or disclosed in any books and records of Lear, and Adkins further agrees that he and such Certified Public Accountant will treat all of such information and knowledge as confidential. Lear agrees that, on or before the dates above specified for payment of royalties to Adkins, it will deliver to Adkins complete reports showing in detail all items covered by said royalty payments and how the royalties in each case have been computed.

5. SUITS FOR INFRINGEMENT.

In the event that any third party or parties shall institute suit against Lear asserting that the manufacture, sale or use by Lear of products under the licenses herein granted, constitutes an infringement of a patent or patents owned by the plaintiff or plaintiffs in such suit, then Lear shall place in escrow all further royalty payments due or payable to Adkins (including Minimum Royalty Payments) under this Agreement with respect to the license involved, from the time of the institution of such suit until such suit shall be finally terminated. Lear shall have the right but shall not be obligated to defend such suit; and, if Lear successfully defends such suit, it shall bear the cost of such defense, but if Lear unsuccessfully defends the suit, then Lear shall be reimbursed from the escrow account by an amount equal to the costs, attorneys, and other fees, judgments and other expenses Lear incurred due to such suit, less the amount it may be awarded and collect from the said plaintiff or plaintiffs, and any residue from the escrow account shall then be paid to Adkins. However, Adkins shall not be required to reimburse Lear beyond the amount of the escrow account at the suit termination for any such costs, fees, and other expenses.

6. INVALID PATENTS.

In the event that patent No. 2,542,975, attached hereto as Exhibit "A" is held invalid or in the event the U.S. Patent Office refuses to issue a patent on the substantial claims of the application attached as Exhibit "B", or if such a patent so issued is subsequently held invalid, or in the event an application for U.S. Patent is filed on the inventions contained in Exhibit "C" and the United States Patent Office refuses to issue a patent on the substantial claims thereof or if such a patent so issued is subsequently held invalid, then in any of such events Lear at its option shall have the right forthwith to terminate the specific license so affected or to terminate this entire Agreement and no further royalties shall thereupon be payable under the license so terminated or under this Agreement if Lear shall have elected to terminate this Agreement in its entirety.

7. MARKING.

Lear agrees to place the required statutory patent notice upon each and every one of said products licensed hereunder.

8. BANKRUPTCY.

If Lear shall be declared a bankrupt or insolvent, or make any assignment for the benefit of creditors, or have a receiver appointed, and if such receiver is not removed within 120 days, then such act or event may, at the option of Adkins, be considered as a material breach of this Agreement, and said agreement may thereafter be terminated by Adkins forthwith.

9. PROSECUTION OF PATENT APPLICATIONS.

As part of the consideration for the licenses herein granted, Lear agrees to pay to Adkins \$540.00 on execution hereof, to reimburse him for patent costs already incurred by him, and Lear further agrees to pay all costs hereafter incurred for preparation and prosecution of all applications for patents on inventions set forth and disclosed in Exhibits "B" and "C" hereof, provided Adkins has secured the prior written approval of Lear therefor. Adkins agrees with due diligence to file and prosecute applications for United States letters patent covering all said inventions and shall submit all such applications to Lear for approval prior to the filing thereof. Adkins further agrees that if Lear desires to prepare said patent applications then at Lear's request he will assist Lear in the preparation thereof and will cooperate fully in all matters relating thereto with Lear or its patent counsel and will execute all papers and take all rightful oaths and Adkins shall immediately upon receipt by him, furnish to Lear a copy of each action taken by the U.S. Patent Office with respect to such applications and to consult with Lear before taking any action with respect thereto, and also to notify Lear when a patent or patents have issued.

10. TERMINATION.

(a) If Lear shall default in the payment of any minimum or earned royalties hereunder or in the furnishing of any reports required by this Agreement, and shall not cure such default within thirty days after written notice thereof has been given to Lear, or shall breach any other terms of this Agreement and shall not cure such other breach within sixty days after written

notice thereof has been given to Lear, then Adkins may, by written notice, terminate this Agreement forthwith after the expiration of said respective thirty-day or sixty-day periods, if any such default is not cured.

(b) Failure to terminate this Agreement for any breach shall not be construed as a waiver of the right so to do for any continuation or repetition of said breach, or any subsequent breach of the same or dissimilar nature.

11. EMPLOYMENT.

It is understood that Adkins has been employed by Lear prior to this date and will continue in its employ after this date pursuant to an employment agreement entered into simultaneously herewith. It is further understood that if hereafter the employment of Adkins shall terminate for any reason whatsoever then in such event this License Agreement shall continue in full force and effect in accordance with all of the terms hereof and subject only to the following additional conditions:

Within fifteen (15) days after the expiration of six full months from the date of termination of the employment of Adkins, Lear shall notify Adkins in writing, that it exercises one of the following four options:

A. To agree that Adkins shall be entitled to receive a minimum royalty at the rate of \$15,000.00 annually beginning after the expiration of said six full months from the date of termination of the employment of Adkins, in which event the license herein granted with respect to Exhibit "A" shall continue as a nonexclusive license, and the licenses herein granted with respect to Exhibits "B" and "C", shall continue as exclusive licenses with Lear.

B. To agree that Adkins shall be entitled to receive a minimum royalty at the rate of \$10,000.00 annually beginning after the expiration of six full months from the date of termination of the employment of Adkins, in which event the license herein granted with respect to Exhibit "B" shall continue as an exclusive license with Lear, and the licenses granted with respect to Exhibits "A" and "C" shall continue as non-exclusive licenses with Lear.

C. To agree that Adkins shall be entitled to receive a minimum royalty at the rate of \$5,000 annually, beginning after the expiration of six full months from the date of termination of the employment of Adkins; in which event the license herein granted with respect to Exhibit "C" shall continue as an exclusive license with Lear, and the licenses granted with respect to Exhibits "A" and "B" shall continue as non-exclusive licenses with Lear.

D. To agree that Adkins shall not be entitled to receive any minimum royalty (except only that provided by paragraph 3 (g)) but rather only actual earned royalties, beginning after the expiration of six full months from the date of termination of the employment of Adkins, in which event the licenses herein granted with respect to Exhibits "A", "B", and "C" shall continue as non-exclusive licenses with Lear.

If Lear exercises option A or option B or option C above, then in such event, if the earned royalties payable for any quarter-annual period thereafter (as the quarter-annual periods are defined in Paragraph 3 hereof) are less than $\frac{1}{4}$ of the annual minimum royalties specified in the option which Lear exercises, Lear shall pay the difference between the earned royalties for such

quarter-annual period and the amount equal to one-fourth of the said annual minimum royalty; provided however, that excess earned royalties in any previous quarter-annual period shall be applied and carried forward to succeeding quarter-annual periods, and provided further that in determining royalties payable to Adkins for the final October, November, and December quarter-annual period of each calendar year, a readjustment or recomputation shall be made, so that Lear shall receive full credit against the minimum annual royalties for all amounts theretofore paid by Lear in such calendar year, either to cover earned royalties or to cover deficits in royalties for prior quarter-annual periods in such calendar year; and if royalties actually earned by Adkins during any such calendar year exceed the annual minimum royalties, then any excess payments made by Lear during such year, not representing royalties actually earned by Adkins, shall be carried forward and be credited against royalties becoming due for subsequent quarter-annual periods.

In the event Lear shall exercise option A, then within ten days after the end of any quarter-annual period thereafter, Lear shall have the further right and option to notify Adkins, that it cancels the exercise of option A and in lieu thereof, adopts and exercises option B or option C or option D above, beginning with the quarter in which such notice is given. It is further understood that if option B is at any time exercised by Lear, then within ten days after the end of any quarter-annual period thereafter, Lear can by notice in writing to Adkins, cancel the exercise of option B and in lieu thereof adopt and exercise option C or option D beginning with the quarter in which such notice is given. It is

further understood that if option C is at any time exercised by Lear, then within ten days after the end of any quarter-annual period thereafter Lear can by notice in writing to Adkins, cancel the exercise of said option C and in lieu thereof adopt and exercise option D beginning with the quarter in which said notice is given. If, as a result of the exercise of any option by Lear, any license becomes non-exclusive, then in such event Lear cannot thereafter exercise any option which will change such non-exclusive license so that the same would become exclusive, except upon securing the consent of Adkins.

In the event Lear fails to notify Adkins in writing that it exercises one of said options A, B, C or D within fifteen (15) days after expiration of six full months from the date of the termination of the employment of Adkins, then it shall be deemed that option D has been exercised by Lear.

12. PATENT INFRINGEMENT SUIT.

In case Adkins and Lear shall agree that suit shall be commenced against any third party for infringement of any patents, claims or inventions embodied under this Agreement, then all costs and expenses, including counsel fees, incurred in prosecuting such suit shall be borne one-half by each. If such suit shall result in a final award of damages, the net proceeds received as a result of said suit after deducting all costs and other expenses, including counsel fees (for which Adkins and Lear shall be reimbursed) incurred in prosecuting such suit, shall be divided one-half to Lear and one-half to Adkins.

13. PREVIOUS AGREEMENT.

This Agreement cancels and supersedes the Agreement between the parties hereto dated December 29, 1951, and any and all other agreements between the parties hereto, entered into prior to the date hereof and relating to any inventions, discoveries or patents of Adkins or otherwise.

14. NOTICES.

Any notice hereunder must be in writing and shall be given by registered mail, postage prepaid. For the purposes of notices under this Agreement the address of Adkins shall be:

468 Twenty-first Street
Santa Monica, California

and the address of Lear shall be:

3171 South Bundy Drive
Santa Monica, California

Attn: Richard M. Mock, President

Either party may, at any time, by thirty days' notice in writing, to the other, designate any other address in place of those specified above.

15. SUCCESSION.

Neither this Agreement nor any of its benefits nor the licenses, rights, or privileges herein granted shall be directly or indirectly, by operation of law or otherwise, assigned, transferred, divided, or shared by Lear without the prior written consent of Adkins. However, this Agreement may be assigned or transferred by Lear to any subsidiary or to any corporation with whom Lear may merge or consolidate or which acquires the major assets or instrument product business of Lear; and this

Agreement may be assigned or transferred by Adkins and his heirs and assigns.

16. APPLICABLE LAW.

It is agreed that the laws and decisions of the State of California, wherever applicable, shall be followed in interpreting and deciding any questions arising from this Agreement.

17. LIST OF PRODUCTS.

It is hereby specifically agreed and understood by the parties that on the date of execution hereof the MA-1 compass Lear Model No. 5005, the Directional Steel Gyro Lear Model No. 2152, and the Vertical Steel Gyro Lear Model No. 2153, are the only products manufactured by Lear under the licenses herein granted, which contain any of the inventions or claims described and covered by the respective Exhibits under this Agreement. As and when additional products are manufactured by Lear under the licenses herein granted and which contain any of the inventions or claims described and covered by the respective Exhibits under this Agreement, Lear agrees to so notify Adkins and to identify the product or item by a model number or identification number, and specify which invention is incorporated or used therein, with respect to the respective Exhibits. Lear shall furnish such list of all items, as aforesaid, to Adkins not later than 30 days after the commencement of the manufacture of any new item incorporating any of the inventions, as aforesaid, provided however, that nothing herein contained shall require Lear to furnish any information to Adkins which Lear is prohibited from disclosing under the terms of any Government contracts.

18. RENEGOTIATION.

This Agreement shall be deemed to be subject to and be deemed to contain all required provisions of the Renegotiation Act of 1951 as it may be amended or extended, or any other Renegotiation or similar Act in effect during the term of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate on the dates set opposite their respective signatures.

Witness:

Robert H. Bloomberg

John S. Adkins

JOHN S. ADKINS

Philip E. Golde
Secretary

LEAR, INCORPORATED
By Richard M. Mock

Second Amended Answer of Lear, Incorporated.

Original Filed Feb. 4, 1964 County Clerk.

In the Superior Court of the State of California, for the County of Los Angeles.

John S. Adkins, Plaintiff, v. Lear, Incorporated et al, Defendants. No. 737,267.

LEAR, INCORPORATED, separating itself from its co-defendants, severally answers plaintiff's complaint by admitting, denying and alleging as follows:

ANSWER TO FIRST CAUSE OF ACTION

I.

Denies paragraphs 1 and III for lack of information or belief.

II.

Answering paragraph IV admits that on or about December 29, 1951, a document (copy of which is at-

tached as Exhibit 1 to the complaint) was signed by the persons whose names appear thereon and that the legal effect of the document was as stated therein and not otherwise. Alleges that on or about September 15, 1955, said document was cancelled and superseded by a written agreement entered into between plaintiff and defendant.

Denies each and every remaining allegation in paragraph IV.

III.

Answering paragraph V admits that plaintiff was employed by defendant from January 2, 1952, to and including January 31, 1958.

Denies each and every remaining allegation in paragraph V.

IV.

Answering paragraph VI, admits that on or about September 15, 1955, plaintiff and defendant entered into a written agreement and that a true copy of said agreement (except for the exhibits thereto) is attached to the complaint and marked Exhibit 2, and that defendant has in its possession copies of the exhibits to said Exhibit 2. Denies specifically that said agreement of September 15, 1955, implemented or supplemented said 1951 agreement or any agreement.

Denies each and every remaining allegation in paragraph VI.

V.

Answering paragraph VII alleges that the provisions of said agreement of September 15, 1955, are in writing and that the terms thereof are as set forth therein and not otherwise.

Denies each and every remaining allegation in paragraph VII.

VI.

Denies each and every allegation in paragraphs VIII, IX, X, XII, XIII, and XIV.

VII.

Answering paragraph XI admits that on or about April 8, 1959, it terminated said September 15, 1955 agreement.

Denies each and every remaining allegation in paragraph XI.

AS A SECOND AND SEPARATE
DEFENSE, DEFENDANT ALLEGES:

VIII.

The complaint is barred by the provisions of §339, Subdivision 1 of the Code of Civil Procedure.

ANSWER TO SECOND CAUSE OF ACTION

IX.

Answering paragraph XV, defendant refers to and by this reference incorporates herein paragraphs I through VII hereof.

X.

Denies each and every allegation contained in paragraphs XVI, XVIII, XIX, and XX.

XI.

Answering paragraph XVII, defendant alleges that the only confidential relationship existing between plaintiff and it during the term of plaintiff's employment by it was a confidential relationship owing by plaintiff to defendant. Specifically denies that any confidential relationship was owing from defendant to plaintiff.

Denies each and every remaining allegation in paragraph XVII.

AS A SECOND AND SEPARATE
DEFENSE, DEFENDANT ALLEGES:

XII.

The complaint is barred by the provisions of §339, Subdivision 1 of the Code of Civil Procedure:

THIRD AND SEPARATE DEFENSE

As a third and separate defense defendant alleges that the causes of action are void and unenforceable because plaintiff released defendant from all claims and demands of liability arising in any way whatsoever in that:

I.

The plaintiff and defendant on September 15, 1955, entered into an employment agreement whereby plaintiff expressly released defendant of, and from any and all claims, demands and liabilities of every kind which plaintiff ever had or had on September 15, 1955, against defendant, by reason of any matter or thing from December 29, 1951 to September 15, 1955 including expressly (but not by way of limitation) all claims and demands arising out of or in connection with the plaintiff's employment prior to September 15, 1955, and all claims and demands arising out of or in connection with the written agreement of December 29, 1951 (Exhibit 1 to the complaint), all as more specifically set forth in said employment agreement. A true and correct copy of said employment agreement is attached hereto as Exhibit 2A, and is incorporated herein by this reference.

II.

The plaintiff also released defendant of any liability or obligation for the use of any idea, discovery or invention because any and all ideas, discoveries and inventions made or conceived by plaintiff are the subject of an express agreement entered into by and between the parties on September 15, 1955, consisting of four written documents, i.e., said 1955 agreement (Exhibit 2 to the complaint), said employment agreement (Exhibit 2A hereto), a patent assignment and disclosure agreement, and a copyright agreement, whereby plaintiff specifically agreed that during the period beginning with the date of his employment by defendant, and ending on a date six months after the termination of his employment, any improvements, inventions or discoveries made and conceived by plaintiff became, and at all times remained the sole and exclusive property of the defendant, with it being deemed that nothing in said employment agreement and said patent assignment and disclosure agreement shall affect, modify or alter said 1955 license agreement (Exhibit 2 to the complaint), all as more specifically set forth in said agreements. A true and correct copy of said patent assignment and disclosure agreement, and a true and correct copy of said copyright agreement are attached hereto as Exhibits 2B and 2C, respectively, and are incorporated herein by this reference.

FOURTH AND SEPARATE DEFENSE

As a fourth and separate defense the defendant alleges the causes of action are void and unenforceable against defendant because defendant has shop rights relating to any and all alleged ideas, discoveries or inventions of plaintiff, if any, wherein defendant had a

non-exclusive right and license to manufacture, use, and sell any product embodying any such ideas, discoveries, improvements or inventions, in that

I.

All physical instruments fabricated by plaintiff either by himself or in cooperation with other employees, and whether independent of supervision or under the supervision of plaintiff, or otherwise, while plaintiff was in the employ of defendant and whether or not they contained ideas, discoveries or inventions of plaintiff, became the property of the defendant to manufacture, use and sell free from any and all royalty payments to plaintiff or others, in accordance with the express terms of the December 29, 1951 agreement (Exhibit 1 to the complaint) granting these rights to defendant insofar as that agreement was in force and had effect.

II.

Defendant, by agreement executed by plaintiff on September 15, 1955, received and retained at least a non-exclusive license as to any and all discoveries, improvements and inventions of plaintiff, if any, which may have been made or conceived by plaintiff during his employment by defendant, with it being deemed that nothing in said employment agreement and said patent assignment and disclosure agreement (Exhibits 2A and 2B hereto, respectively) shall affect, modify, or alter said 1955 license agreement (Exhibit 2 to the complaint), all as more specifically set forth in said patent assignment and disclosure agreement (Exhibit 2B hereto), and in said employment agreement (Exhibit 2A hereto).

III.

Any and all ideas, discoveries, disclosures, improvements or inventions, if any, which plaintiff may have conceived either before or during the period of plaintiff's employment with the defendant, and insofar as any of these alleged ideas, discoveries, disclosures, improvements or inventions, became embodied in any physical instrumentations, such embodiment was by and through the use of defendant's materials, facilities, appliances and aid of other of defendant's employees during plaintiff's employment for which he was adequately compensated in salary and other remuneration and expected and requested no other.

WHEREFORE, defendant prays that plaintiff take nothing by his complaint, that the same be dismissed as to this defendant and that defendant recover its costs and such other relief as may be just and proper.

Christie, Parker & Hale

C. Russell Hale, Esq.

Edwin L. Hartz, Esq.

Kenneth C. Newell, Esq.

By /s/ Edwin L. Hartz

Attorneys for Defendants

EXHIBIT 2A. (to the Second Amended Answer)

September 15, 1955

John S. Adkins
4628 21st Street
Santa Monica, Calif.

Dear Mr. Adkins:

You have been employed by us for some time prior to this date, pursuant to verbal arrangements between us. Effective September 15, 1955, your employment with us shall be continued on the following terms and provisions.

You are employed on a month-to-month basis as Gyro Instrument Department Head of the Santa Monica Branch of the Grand Rapids Instrument Products Division, in connection with our gyro projects. Your salary will be at the rate of \$1,000 per month and you will report to Victor Welge. You will further be entitled to participate in our Incentive Bonus Plan in such manner as determined by our Incentive Bonus Committee, so long as said Plan is in effect.

Your employment is subject to our usual terms and conditions which include the signing by you of our customary form relating to assignment of patents, and such agreement relating to assignment of patents shall be deemed to relate to and include not only the period of employment after this date, but also the entire period of your employment prior to the date hereof. It is understood, however, that nothing herein contained or contained in said agreement relating to assignment of patents mentioned in the prior sentence, shall be deemed to affect, modify or alter the certain license agreement between you and us, executed simultaneously herewith,

under which you are granting to us a license to use certain of your inventions and claims as set forth in such license agreement. You also agree that we shall have the right to use your name and photograph in our catalogs, booklets, etc.

This agreement cancels and supersedes all agreements between us prior to this date relating to your employment. It is further specifically understood that the written agreement dated December 29, 1951 heretofore entered into between us, is cancelled and terminated as of this date, and that you hereby release us of and from any and all claims, demands and liabilities of every kind which you ever had or now have against us, by reason of any matter or thing from December 29, 1951 to the date hereof, including especially (but not by way of limitation) all claims and demands arising out of or in connection with your employment prior to this date, and all claims and demands arising out of or in connection with said written agreement of December 29, 1951.

LEAR, INCORPORATED

By /s/ Richard M. Mock

President

PEG:vlr

Accepted and Agreed To:

/s/ John S. Adkins

EXHIBIT 2B (to the Second Amended Answer)
AGREEMENT

In consideration of Lear, Incorporated, a corporation and/or its subsidiary and affiliated companies, (herein referred to jointly and severally as the "Corporation") retaining me on its payroll after the date of this agreement, I:

1. Agree to disclose promptly and fully to the Corporation, any and all discoveries, improvements and inventions made or conceived by me, individually or jointly with others during the period beginning with the date of my employment by the Corporation and ending on a date six months following the termination thereof; that shall relate to or be within the existing or contemplated scope of the business of the Corporation.

2. Agree to submit adequate written disclosures of all said discoveries, inventions, and improvements, dated and signed by me, including details of the circumstances and date of conception, the names of those having knowledge thereof, and accompanied by sketches, photographs, drawings and other data pertinent thereto.

3. Agree that all of said discoveries, inventions and improvements shall be and at all times remain the sole and exclusive property of the corporation.

4. Agree to assign to the Corporation on request all such discoveries, inventions and improvements, irrespective of whether patent applications are filed; and, if patent applications are filed, to make assignment thereof. In the event the Corporation declines to make application for patents on such discoveries, inventions or improvements or any of them, it will, upon request, release me from such assignment, retaining only a non-

exclusive license as to said inventions or discoveries or improvements.

5. Agree to make and execute upon the request of the Corporation and at its expense, applications for letters Patent of the United States and any foreign country, on any such discoveries, inventions and improvements, including divisional, continuing or reissue applications. To give, without added compensation, all reasonable assistance, information and authorization in the preparation of applications, drafting of amendments and other matters pertaining to the procurement and protection of Letters Patent.

6. Agree not to disclose at any time confidential information obtained by, or imparted to me, while in the employ of the Corporation, to anyone without the written consent of the Corporation. The word "third" shall not include employees and agents of the Corporation duly authorized to receive such information. I further agree, upon termination of my employment; not to take, without the Corporation's written consent, any records, drawings, data, prints or any other documents of any kind pertaining to matters of the Corporation.

7. Agree that whenever requested, without compensation therefor, except as otherwise herein provided, I will execute and deliver all additional instruments and papers, and perform all other acts which the Corporation may deem necessary and proper to effectuate this agreement, and the fulfillment of any obligations imposed hereby, including, but not by enumeration excluding the generality of the foregoing, testifying in interference proceedings, suits and other legal proceedings, in which any discovery, improvement or invention

made or conceived by me, or any applications or patents therefor may be involved.

8. Acknowledge that the Corporation hereby makes no specific offer of additional compensation for disclosures or assignments of inventions, improvements or discoveries, but I do recognize that inventive ability is one element of value to the Corporation and that the same is taken into consideration in fixing or adjusting my compensation, in accordance with its policy of recognizing services of whatever nature.

9. Agree that no change in this Agreement or in any of the provisions hereof shall be binding on the Corporation or have any force or effect unless and until made in writing and executed by myself and a duly authorized officer of the corporation.

10. Agree that this agreement shall inure to the benefit of the successors and assigns of the Corporation, and shall inure to the benefit of and be binding upon my heirs, executors and administrators.

11. Further agree that this agreement shall be construed according to the laws of the State of California.

Signed at Los Angeles, California this 15th day of September, 1955.

Signed: /s/ John S. Adkins
(Sign first name in full)

State of California, County of Los Angeles,

On this 15th day of Sept., 1955, before me personally came the above-named John S. Adkins, to me personally

known to be the individual who executed the foregoing agreement, who acknowledged to me that he executed the same of his own free will for the purposes therein set forth.

/s/ Valerie Logan

Notary Public

My Commission Expires June 2, 1957

(Notary's Seal)

EXHIBIT 2C (to the Second Amended Answer)

LEAR INCORPORATED

LEARCAL DIVISION

COPYRIGHT AGREEMENT

This agreement, signed this 15th day of Sept., 1955, is hereby entered into in connection with and as a part of the employment of John S. Adkins hereafter referred to as "Employee" by Lear, Incorporated, hereafter referred to as the "Corporation".

"The Employee agrees that all writings, art designs, prints, labels, works of art and copyrightable subject matter pertaining to the Corporation and any of its subsidiaries, or arising out of or from or in connection with the Employee's employment by the Corporations, which the Employee, either solely or jointly with others, makes, develops or conceives while employed by the Corporation shall be the sole property of the Corporation; and the Employee agrees to execute all assignments and other instruments necessary to vest in the assignments the full and complete ownership of copyrights in such subject matter and all beneficial incidents thereof, both common law and under the Copyright Statutes of the United States and all other countries."

/s/ John S. Adkins

Employees' Signature

Fifth and Separate Defense of Lear Incorporated.

Lodged in the Superior Court of the State of California, for the County of Los Angeles, on April 6, 1964 and leave to file granted April 8, 1964. C. T. 1652.

**AS A FIFTH AND SEPARATE DEFENSE,
DEFENDANT ALLEGES:**

Any and all of plaintiff's causes of action for breach of express contract, or breach of implied-in-fact contract, or for unjust enrichment, if any, are void and unenforceable because of failure of consideration, in that:

I.

The license agreement of September 15, 1955, set forth as Exhibit 2 to the complaint, and alleged therein and as plaintiff's Exhibit 8 at the trial herein, at all times after execution up to termination on April 8, 1959, provided that in the event the United States Patent Office refused to issue a patent on the substantial claims of plaintiff's patent application which was Exhibit B to said agreement and hereinafter called said application, that defendant shall have the right to forthwith terminate the respective license and thereafter all royalty payments should cease and that said agreement further provides that royalties would be payable only on products manufactured and sold by defendant which incorporated an invention of the plaintiff and that the invention of the plaintiff would be delineated by the United States Patent Office during the prosecution of

plaintiff's said patent application under which defendant had an exclusive license.

II.

On or about March 21, 1957, the United States Patent Office held that the claims in said application relating to a method of bearing alignment and bearing structure, could not be patented and cited certain patents, and in particular Grenat Patent No. 2,531,334, and other prior patents, that the said decision of the said Patent Office became final and plaintiff was, upon said decision, finally unsuccessful in obtaining a patent on said method of assembly or on any feature of defendant's manufactured products, and accordingly defendant has not made any further royalty payments under said license agreement with respect to any and all Michigan products or steel gyro products.

III.

Plaintiff failed to obtain a patent which would afford defendant protection and which would cover defendant's products according to his warranties and representations, all as more specifically set forth in said agreement, because the said patent disclosed no patentable invention over and/or in view of, the state of the art existing and prior to the time application for said Letters Patent was filed, as listed at pages 13 and 14 of defendant's separate pretrial statement which was made a part of the pretrial order, and as more

particularly illustrated by the following prior art and patents and publications:

<u>Defendant's Exhibit</u>	<u>Patentee</u>	<u>Patent No.</u>	<u>Issue Date</u>
A-27	Grenat	2,531,334	11/21/50
A-30	Tanner	1,701,283	2/ 5 /29
A-31	Schwan	2,704,693	3/22/55
A-34	Harding, et al	2,269,103	1/ 6 /42
A-36	Van Der Heem	2,236,596	4/ 1 /41
A-38	Carlson	2,352,469	6/27/44
A-40	Moody	2,530,533	11/21/50
A-41	Van Der Heem	2,677,065	4/27/54
A-44	Freed	2,001,383	5/14/35
A-45	Herr	2,633,544	3/31/53
A-51	Sperry	1,342,397	6/ 1 /20

IV.

The alleged inventions and improvements and all material and substantial parts of the same, described and claimed as new in said Letters Patent No. 2,919,586 and attempted to be patented thereby do not exhibit or embody any substantial variation or change from the state of the art at the time of the alleged design or discovery by plaintiff John S. Adkins, and does not involve or require invention, and involves instead mere mechanical skill which does not constitute patentable subject matter, and are not and never have been of any utility or value.

V.

The claims 9 through 16 of said patent relied on by plaintiff as purporting to define an invention and allegedly covering defendant's manufactured products lack novelty or unexpected cooperation and constitute instead a mere nonpatentable aggregation of elements.

VI.

In view of the knowledge and practice of the art at and prior to the date of filing the application for Letters Patent No. 2,919,586 in suit, it is required for any of the claims 9 through 16 to be valid that such claims of the said patent must be so narrowly construed as to be incapable of validly covering any of defendant's Michigan products.

VII.

Defendant has at no time or place made use of the alleged improvements claimed in said patent in suit, and has never practiced any method or made, used or sold any gyroscope products or gyroscope components or gyroscope systems covered by, or in infringement of, any patent or license rights of the plaintiff, or damaged the plaintiff in respect of said patent or said license, or profited by reason of anything contained in or covered by said patent or said license because every such gyroscope product, component, and system manufactured by defendant does not incorporate any invention or claims of plaintiff, but on the contrary are built wholly according to the teachings of the prior art and/or defendant's own patents and knowledge and/or public domain inventions represented by expired prior art patents and devices in public use and sold in the United States for more than one year prior to the date of filing of said application, and that everything necessary for such manufacturing was taught by such prior art and defendant's knowledge plus ordinary mechanical skill and are thus without the scope of the alleged invention, and therefore outside the terms of said license agreement and no royalties are or were payable thereon.

(e) Paragraph 11 gives Lear four options upon Adkins leaving Lear's employ, three of which require payment of minimum royalties and one earned royalty only. If Lear could terminate under 2(a) and pay no royalties at all this would constitute a fifth option which would result in an absurdity as obviously Lear would always exercise a 2(a) termination. In other words Lear's construction of 2(a) makes Paragraph 11 wholly useless.

(f) It is also arguable that once Adkins leaves Lear's employ 2(a) is superseded by Paragraph 11 which provides that "in such event this license agreement shall continue in full force and effect". This construction is strengthened where the fourth option of no minimum but only earned royalties is elected since the same result pertains under the proper construction of Paragraph 2(a) prior to Adkins leaving Lear's employ.

In addition to a construction of all five termination clauses in said agreement prohibiting an exercise of 2(a) without prior or concurrent cessation of manufacture the same result must be achieved under CC §1655 and §1656 whereunder provisions which are necessary to make an agreement reasonable and capable of being carried into effect are implied as a matter of law, as any interpretation which would allow Lear to terminate and continue to manufacture the same gyros royalty free would be the most unreasonable construction of this clause that is conceivable. Clearly Adkins was not giving and Lear could not reasonably understand that it was acquiring the right to unilaterally end all royalty payments at any time.

Reporter's Transcript of Testimony in the
Superior Court.

Adkins' Direct Examination.

Rep. Tr. p. 316, lines 2-26.

Q (By Mr. Cohen) How many different configurations of bearing cups are shown on that blowup drawing where the bearing cup mates to its receiving element?

A There are three different configurations of bearing cups on that drawing.

Q Would you describe the configurations and indicate where they are, please?

A On the left we have a spherical bearing cup, and a conical bearing cup receiving surface on the structure.

On the right side we have a conical surface on the bearing cup, and we have a rounded edge on the bearing cup receiving element.

On the outer axis we have a rounded edge on the bearing cup here (indicating) and this was identical around here (indicating), a rounded edge.

Then you have a cone on the bearing cup receiving element in both the top and the bottom.

Q By inner axis and outer axis you are referring to the inner gimbal and the outer gimbal?

A Yes; the inner gimbal, the ones that mounted the inner gimbal bearings and the outer gimbal bearings respectively.

Q Were all of these configurations designed by you?

A Yes.

Rep. Tr. p. 347, lines 7-18.

Q BY MR. COHEN: Are the bearing cups that are depicted on that blow-up of the 2152 alignable bearing cups?

A Yes, they are.

Q Are they capable of being rocked or shifted in the alignment process?

A They are.

Q Is there a relatively loose fit between the bearing cup and the hole in the gimbal?

A Yes.

Q And this permits the rocking or shifting?

A It does.

Rep. Tr. p. 358, line 7, to p. 359, line 7.

Q (By Mr. Cohen) Are they capable of being rocked or shifted in the process of assembly?

A Yes, the hole in the gimbal is oversized. It is bigger than the cylindrical surface of the bearing cup which permits them to be rocked so they can be aligned with respect to each other during the installation of the operation.

Q Is the configuration of the bearing cup and receiving hole the same in the 2151, 2152 and 2153 gyros?

A It is the same.

Q How are the bearing cups installed in the 2151 gyro?

A They are held in aligned relationship with a jig or fixture while the cement is in place between the bearing cup and the bearing cup receiving hole and the fixture remains in place until the cement cures so that the bearing cups are very highly accurately aligned with respect to each other for installation.

Q Is that the same way they are installed on the 2152 gyro?

A The same.

Q And is that the same way they are installed on the 2153 gyro?

A Yes.

Q And is that the same way they are installed on the 2156 gyro?

A The same,

Rep. Tr. p. 370, lines 5-20.

THE COURT: Counsel, let me give you a hint. Ask him this question: Is it true that in structure, function, and installation these bearings are identical with those that you have heretofore described in 2152?

MR. COHEN: Bearing cups, your Honor.

THE COURT: Yes.

THE WITNESS: Yes; the bearing cups are.

THE COURT: The bearings and all associated parts.

THE WITNESS: They are similar. They are a little bit different in configuration but the principle is the same.

THE COURT: The structure, function, and installation is similar or identical?

THE WITNESS: That is correct.

THE COURT: All right. That is everything you could possibly want about this bearing.

Rep. Tr. p. 375, lines 12-21.

A These bearing cups are again held in aligned relationship and are cemented in place with a jig or fixture remaining in place while the cement is curing so that you end up with a structure in which they are permanently installed in aligned relationship.

Q (By Mr. Cohen) Are they alignable bearing cups?

VIII.

By the proceedings had or taken in the United States Patent Office in the prosecution of said patent application, attached as Exhibit "B" to said license agreement, the only possible claims which could ever possibly be construed so as to read on defendant's Michigan gyroscope products were claims for a method or process substantially different from any invention indicated, suggested or described in the original application therefor, which claims were repeatedly and finally rejected by the Patent Examiner in the above mentioned prosecution, and thus the plaintiff-licensor thereof and his legal representatives or assigns, are estopped from maintaining the issued claims are of such scope as to cover or embrace any Michigan products or apparatus which the defendants have made, used or sold, or which defendant is now making, using or selling.

Clerk's Transcript p. 1417, lines 6-14; Superior Court.

- (i) does said agreement by construction either from within its four corners or by implying a provision into said agreement as a matter of law, prohibit termination without prior or concurrent cessation of manufacture and render the purported termination ineffective to terminate said agreement? or

Clerk's Transcript pp. 2319-2322 Superior Court.

adjudication in which the patent is *held* invalid.

Under Paragraph 6 Lear has the right to terminate said agreement or the license of the invention if the patent thereon is "held" invalid.

Similar clauses are always construed to mean third party adjudication only, *United States v. Harvey Steel*

Co. (1906) 196 U.S. 310. Thus Paragraph 6 of said agreement does not give Lear the right to question the validity of the patent issuing to Adkins. In addition, since Lear was in an industry where licensing of patents is commonplace it is presumed that Lear was aware of the rule prohibiting a licensee from questioning the validity of his licensors patent, *United States v. Harvey Steel Co.* (1905) 196 U.S. 310 and contracted with reference to it. In fact the evidence will show that Lear attempted to expressly reserve the right to question validity and then abandoned this point.

7. Lear cannot exercise 2(a) termination without prior or concurrent cessation of manufacture.

In Paragraph 2(a) Lear is given the right "on ninety days prior written notice to Adkins to terminate any one or more of the licenses herein granted". This paragraph, however, is silent on Lear's duty to pay royalties on products manufactured after notice of termination.

Paragraphs 2(a), 3(g), 6, 8 and 10 all pertain to various rights of termination and consequently must be read together in deciding whether Lear may validly exercise 2(a) termination while continuing to manufacture the very same gyros, *O'Connor v. West Sacramento Co.* (1932) 189 Cal. 7, 11. When the five paragraphs dealing with termination are considered together the conclusion is inescapable that *both* parties meant in Paragraph 2(a) that Lear may terminate under this paragraph only if prior thereto or concurrently therewith Lear ceases manufacture of all gyros incorporating said invention in which event Lear has 90 days to complete manufacture of gyros in progress. The obvious purpose of Paragraph 2(a) was to terminate minimum royalty payments if Lear decided to cease manufacture

of covered gyros in that even though Lear had no obligation to manufacture it would have to pay yearly minimum royalties even if it did not manufacture as long as the particular license was in effect. [Paragraph 3(g)]

(a) It is absurd to assume that Adkins was exchanging a right to a "mutually satisfactory royalty" for \$500 upon execution of the said agreement [Page 2] which would be the only certain consideration if in conjunction with the right not to manufacture at all [Paragraph 3(g)] Lear also has the right to terminate and continue manufacture royalty free under Paragraph 2(a). Not only does the presumption against "absurd" results prevent such an interpretation but the cannon requiring all provisions dealing with the same subject to be construed together requires the result sought by Adkins.

(b) The *only* provisions enabling Lear to manufacture without "further royalt[y] payments" is expressly covered in Paragraph 6 in the event of adjudication of invalidity or non-issuance of "substantial claims"—both of which are acts which third parties only can occasion. There is not one indication in said agreement that Lear can by its own act terminate royalties under Paragraph 2(a) while continuing manufacture. As stated *supra* such a construction would violate the implied provision in every agreement of good faith and fair dealing *Automatic Vending Co. v. Wisdom* (1960) 182 Cal. App. 2d 354. In other words Lear's only rights to manufacture royalty free are covered in Paragraph 6 and such rights are not to be read into Paragraph 2(a). Paragraph 6 would be wholly

redundant if Lear for any reason could terminate under Paragraph 2(a) and escape payment of royalties.

(c) Under Paragraph 3(g) Adkins can terminate Lear's right to manufacture if Lear is in breach by failing to make minimum royalty payments and Lear thereafter has 90 days to complete manufacture of gyros then in progress and is expressly prohibited from further manufacture. It would be absurd to say that where Adkins can prevent further manufacture if Lear fails to pay minimum royalties, Lear can escape its obligation to pay minimum *and* earned royalties by terminating under 2(a) and thereby not only be relieved of a breach by failure to pay minimum royalties but also acquire the new right to manufacture free of any royalty at all. The 90 day grace period of 3(g) is solely for Lear's benefit and it must be assumed that the 90 day period of 2(a) is also solely for Lear's benefit since it can be of no benefit to Adkins in the absence of a duty to manufacture. Therefore an obligation to cease manufacture arises by necessary implication to give effect to the 90 day grace period and prevent it from being meaningless.

(d) Under Paragraph 10, Adkins can terminate if Lear fails to pay earned royalties and does not cure its default within the notice period. Like Paragraph 2(a) this paragraph is silent on Lear's right to manufacture after termination and it would also be absurd to say that Adkins can bar Lear from further manufacture only if it refuses to pay minimum royalties but not if Lear refuses to pay earned royalties. Consequently the duty to cease manufacture must be implied in both Paragraphs 2(a) and 10.

A Yes, they are capable of rocking or alignment in the oversized holes in the gimbal.

Q And this is because of the oversized holes in the gimbal?

A That's right.

Adkins' Cross Examination.

Rep. Tr. p. 550, line 16, to p. 552, line 22.

Q BY MR. HARTZ: Mr. Adkins, did you design and develop the 2152 gyro?

MR. COHEN: Your Honor, I object again to this as being irrelevant and immaterial. We are concerned only whether the gyro uses the patented construction that is covered in the agreement. We are not concerned with who designed the particular configurations used. I object on the ground that it is irrelevant and on the ground that it is immaterial.

THE COURT: Well, a patentee represents to the patent office and to the world that he is the inventor of something. I don't know why it would not be proper to ask him that.

MR. COHEN: That isn't what the question was, your Honor. The question called for whether he designed the particular configuration that is shown on that drawing and my objection is that that is irrelevant and immaterial.

THE COURT: May I have the question, please.

(The question was read by the reporter.)

THE COURT: I am assuming, perhaps, that the 2152 which has been mentioned here is within the class of structures referred to in this patent.

MR. COHEN: Yes, your Honor.

THE COURT: All right, the question is proper. The objection is overruled. Answer it.

THE WITNESS: No, I did not design that gyro.

Q BY MR. HARTZ: Mr. Adkins, did you design and develop the other steel gyros that have been listed here today, the 2151, 2153, 2171, 7000, 6001 and 7002 gyros, which we will collectively call the Michigan gyros?

Did you design and develop those, Mr. Adkins?

A No, I did not design those gyros.

Q Were these designed and developed in Michigan, Mr. Adkins?

THE COURT: What difference does it make? He didn't do it. What difference does it make who did it and where they did it?

MR. HARTZ: It is only for ease of reference so that I can term them "Michigan gyros," rather than reciting each time each and every one of these gyros.

THE WITNESS: If he doesn't know, how can you gain anything by asking him?

MR. HARTZ: I believe he does know, your Honor.

THE COURT: We are not going to waste time inquiring around. If you know, all you have to do is get a witness to say so. Let's move along.

MR. HARTZ: Yes, your Honor.

Q Mr. Adkins, did you design and develop this particular configuration of bearing cup that is employed in the 2152 gyro?

A No.

Q Did you design and develop the method of mounting, that is, did you design and develop the gimbal housing itself in the 2153 gyro?

A No, those detailed drawings were made in Grand Rapids.

Q Was the design and development also made in Grand Rapids?

A To the best of my knowledge, it was, yes.

Reading of Schoepfel Deposition.

Questions by Mr. Cohen. Answers by Mr. Schoepfel.

Rep. Tr. p. 614, line 25, to p. 616, line 10.

“Q Now, again, comparing the MA-1 compass depicted on Exhibit 1 and the steel gyro depicted on Exhibit 2, did the different shape of the bearing cups and the receiving holes make any difference in the method of construction of either of those gyroscopes?”

MR. HARTZ: Your Honor, I object to that question as calling for the opinion of a nonexpert.

THE COURT: I don't think you have to be an expert to answer whether a shell could fit into a big loose hole or not. Overruled.

(Continuing reading.)

“A This is a question that is rather broad. It is hard to answer in that context. Would you rephrase it.

“Q Was the procedure in constructing both gyros the same in spite of the difference in configuration of the bearing cups and their receiving elements?

“A Yes.

“Q Did the difference in configuration of the bearing cup and the receiving elements—

“A You are speaking now of the two axes that are comparable here? I want to make that distinction, that the 2 and 4 here on Exhibit 1—and we are talking of 1 and 3 on Exhibit 2. My answer to the question covers that precisely.

“Q We are speaking now of the gimbal as depicted on Exhibit 1 and Exhibit 2.

"A Right. So we are comparing like parts of like gyros.

"Q That is correct.

"A All right, good.

"Q Now, did the difference in configuration of the bearing cups and receiving elements on Exhibit 1 and Exhibit 2 make any difference in the operation of either of those two gyroscopes?

"A No."

Rep. Tr. p. 616, lines 17-19.

MR. COHEN: Your Honor, we will have to fold one of these drawings. He is comparing two drawings.

THE COURT: I appreciate that.

MR. LEE: This is Exhibit 1 and this is Exhibit 2.

Rep. Tr. p. 617, line 24, to p. 618, line 1.

THE COURT: Overruled. You can have wide differences in configurations and still perform the same function and get the same result. You concede that?

MR. HARTZ: Yes, your Honor, that is correct.

Schoeppel Deposition.

Questions by Mr. Cohen. Answers by Mr. Schoeppel.

Rep. Tr. p. 618, line 10, to p. 619, line 18.

"Q Now, are the differences in the shape of the bearing cups and the receiving elements as depicted on Exhibit 1 and Exhibit 2 differences in principle?

"A Would you clarify as to what you mean by 'principle.'

"Q Yes. Is there a difference in principle in the gyroscope that results from the difference in the configurations?

"A If the term 'principle' involves the alignment of the bearing cups with respect to the gimbal, I would

say there is no basic—in my opinion there is no basic difference in principle.

“Q Mr. Schoepfel, comparing the MA-1 compass as depicted on Exhibit 1 and the steel gyro as depicted on Exhibit 3, do they both have the same general arrangement of parts? Do they both have the same general arrangement of parts?

“THE WITNESS: May I suggest that the remarks in the transcript associated with Exhibits 1 and 2 also apply to Exhibits 1 and 3. The differences between 2 and 3 are incidental, in my opinion, to the discussion.

“Q Let me put this question to you, Mr. Schoepfel: Are the configurations of the bearing cups and the receiving elements as depicted and marked by you on Exhibit 2 and Exhibit 3 the same?

“A In every major respect they are the same.

“Q So that—

“A And they are very nearly identical.

“Q So that if I asked you the same series of questions comparing the MA-1 compass, as depicted on Exhibit 1, to the steel gyro, as depicted on Exhibit 3, as I did with respect to Exhibit 2, would your answers be the same?

“A Yes.”

Carpenter Direct Examination.

Rep. Tr. p. 622, line 24, to p. 623, line 25.

Q (By Mr. Cohen) Mr. Carpenter, what is the configuration of the two bearing cups that are shown in the areas that are circled and marked Y?

A The configuration is a cylinder which has a step in it which makes it like a bushing with a flange on it.

Q And what is the configuration?

THE COURT: Some of the ladies look puzzled. You all know what a bushing is? They don't shake their heads "yes" and they don't shake their heads "no."

Now, you know women better than I do. It is up to you to make it clear.

A bushing is nothing more or less than a piece of pipe hollow on the inside or a cylinder would be another term for it. A little piece of pipe would be a bushing and that would be a description of what it is used for. It is a shape or configuration. Incidentally, don't be afraid of that word "configuration." That merely means its shape or appearance.

All right. Let's get back to where we were.

Q BY MR. COHEN: It is then a cylinder with a flange; is that correct?

A That is correct.

Q What is the configuration of the receiving holes that receive those bearing cups shown in Areas Y?

A They are round.

Q Cylindrical in shape?

A True.

Colloquy in Chambers.

Rep. Tr. p. 1019, line 19, to p. 1020, line 1.

MR. HARTZ: This gives Lear the right to determine what are substantial claims and having made this determination, it is something that will exclude competitors and give them a monopoly in this particular area of interest and this is something they did not get and could not get.

THE COURT: You say this is to be interpreted as meaning that Adkins gave Lear the exclusive right to determine what the claims in the patent were to be?

MR. HARTZ: The substantial claims, yes.

Rep. Tr. p. 1039, lines 25-26.

the only type of displacement that you can have is an angular displacement.

Carpenter's Cross Examination.

Rep. Tr. p. 1212, lines 2-13.

Q (By Mr. Cohen) Now, the clearance between the bearing cup and the hole is what permits the tipping of the rocking; isn't that so?

A That is what makes the movement, yes.

Q And the movement is tipping or rocking which is permitted?

A Well, it can be tipped. If it is located on top of the mandrel, the only tipping you are going to get is axial, back and forth, like a pendulum or you can move back and forth in a plane, in that direction. But talking about tipping or rocking, its locating in there, it would only be in the clearance hole.

Ferrill's Direct Examination.

Rep. Tr. p. 1286, lines 5-7.

I'm sorry, I said three method claims—three bearing claims, the first two were method claims and the other, the ninth claim, was an apparatus claim.

Ferrill's Cross Examination.

Rep. Tr. p. 1428, lines 6-25.

Q Now, the flat surface on the bearing cup and the smaller cylindrical surface considered together with the generally flat surface on the inside of the gimbal, in the hole of the gimbal or the wall of the hole of the gimbal, those surfaces fix the positions within limits that the bearing cup may take, do they not?

A No, they don't fix the positions. They do establish limits beyond which it cannot go.

Q Correct. They limit the positions which the bearing cup may take.

A They limit the radial freedom of movement and they limit the angular freedom of movement.

Q The rocking or tilting?

A The rocking or tilting as well as translation or radial movement.

Q Again, I believe we have said this, but the cup is a loose fit in the gimbal so that it can be rocked or tilted about; is that right?

A The bearing cup is smaller than the space in the gimbal and it is free to be rocked or tilted.

Curriston's Direct Examination.

Rep. Tr. p. 1733, line 27, to p. 1734, line 1.

Now, this then is the key to the whole gyro design: Its repeatability.

Curriston's Cross Examination.

Rep. Tr. p. 1783, lines 4-14.

Q (By Mr. Cohen) Now, of course, once the bearing cup is cemented in it is immaterial whether it has the tippy washer on it or not; isn't that so?

A Functionally, yes.

Q And the configuration of the cup makes no difference, either, once it is cemented in, does it?

MR. HARTZ: Your Honor, I object to that question as being beyond the scope of the direct.

THE COURT: The objection is overruled.

THE WITNESS: It doesn't make any difference once it is cemented in.

Reading of Schoeppel Deposition.

Rep. Tr. p. 2141, line 22, to p. 2142, line 6.

Questions by Mr. Cohen. Answers by Mr. Schoeppel.

A Um-hum. By that time Lear was firmly ensconced in the field of production of vertical gyroscopes for the Air Force in very sizable quantities, and we had competition of Bendix and Sperry on our heels, and it was essential that our organization obsolete our own product very quickly at that time, or we would have been obsoleted by the competition so that the purpose of the low-cost gyro on which I was working was two-fold. One was to reduce cost. The second was to build a higher-precision gyro that would be more difficult for the competition to attain.

Rep. Tr. p. 2172, lines 10-19.

Q Was the method of constructing the MA-1 compass, as depicted on Exhibit 1, and the steel gyro, as depicted on Exhibit 2, to hold the bearing cups in fixed relation to each other by a mandrel and then glue them into place in the bearing cup receiving element?

A It was the same in principle in both cases.

Q In both was the accuracy of the bearing alignment independent of the relationship of the mounting holes for the bearing cups?

A Yes.

Rep. Tr. p. 2173, line 15, to p. 2174, line 9.

Q Was the procedure in constructing both gryos the same in spite of the difference in configuration of the bearing cups and their receiving elements?

A Yes.

Q Did the difference in configuration of the bearing cups and the receiving elements—

A You are speaking now of the two axes that are comparable here? I want to make that distinction, that the 2 and 4 here on Exhibit 1—and we are speaking of 1 and 2 on Exhibit 2. My answer to the question covers that precisely.

Q We are speaking now of the gimbal as depicted on Exhibits 1 and Exhibit 2.

A Right. So we are comparing like parts of like gyros.

Q That is correct.

A All right, good.

Q Now, did the difference in configuration of the bearing cups and receiving elements on Exhibit 1 and Exhibit 2 make any difference in the operation of either of those two gyroscopes?

A No.

Rep. Tr. p. 2174, line 10, to p. 2177, line 11.

Questions by Mr. Cohen. Answers by Mr. Schoeppel.

“Q Did it make any difference in the cost of manufacture for either of those gyroscopes?”

There was an objection and I stated, “You may answer the question.”

“A Part of the duties of a man in my position were to know the cost of this class of the detailed parts of gyros, as well as the cost of assembly and that sort of thing. This is known as value engineering today, in a new, dressed-up mode. The cost—

Q Let me stop you there for a minute, please. So that in the course of your employment by Lear between 1952 and 1957, when you went to Advanced Engineering, you became familiar with and necessarily became familiar with the cost of producing gyroscopes and parts for gyroscopes; is that correct?

A That is correct.”

There was an objection and then the next question appears at page 54, line 20. That is just colloquy. At page 56, line 5.

(Continuing reading)

"Q Now, Mr. Schoepel, in the course of your employment by Lear when you first went with Lear, from that time—

A May I ask this? There is an unanswered portion of my question. Do you wish to rephrase it or—

Q I will rephrase it eventually. I will lay the foundation first, if I may. Now, in the course of your employment with Lear from the time that you were first employed by Lear until the time that you went to Advanced Engineering, as a part of your duties did you become familiar with the costs involved in producing and developing gyroscopes and parts of gyroscopes?"

MR. HARTZ: I will object as being not relevant or material to any issue in the case.

THE COURT: We haven't delved into costs this far that I know of.

MR. COHEN: This is one way of showing that the configuration differs in the two gyroscopes is completely immaterial, to show that it makes no difference in the operation or function of the cost.

THE COURT: That would certainly be a roundabout way to prove it. The objection is sustained.

MR. COHEN: May I make an offer of proof, your Honor?

THE COURT: In chambers you may, yes.

MR. COHEN: Page 57, line 18:

"Q Now, are the differences in the shape of the bearing cups and the receiving elements as depicted on Exhibit 1 and Exhibit 2 differences in principle?

A Would you clarify as to what you mean by 'principle.'

Q Yes. Is there a difference in principle in the gyroscope that results from the difference in the configurations?

A If the term 'principle' involves the alignment of the bearing cups with respect to the gimbal, I would say there is no basic—in my opinion there is no basic difference in principle.

Q Mr. Schoeppel, comparing the MA-1 compass as depicted on Exhibit 1 and the steel gyro as depicted on Exhibit 3, do they both have the same general arrangement of parts? Do they both have the same general arrangement of parts?

A May I suggest that the remarks in the transcript associated with Exhibits 1 and 2 also apply to Exhibits 1 and 3. The differences between 2 and 3 are incidental, in my opinion, to the discussion.

Q Let's go through with the long form, anyway, so that we will have it for the record. Let's go off the record for a minute.

Let me put this question to you, Mr. Schoeppel: "Are the configurations of the bearing cups and the receiving elements as depicted and marked by you on Exhibit 2 and Exhibit 3 the same?"

A In every major respect they are the same.

Q So that—

A And they are very nearly identical.

Q So that if I asked you the same series of questions comparing the MA-1 compass, as depicted on Exhibit 1, to the steel gyro, as depicted on Exhibits 3, as I did with respect to Exhibit 2, would your answers be the same?

A Yes.

Chesnut's Direct Examination.

Rep. Tr. p. 2271, line 23, to p. 2272, line 18.

A The supporting surface at the top on the gimbal frame, the blue member, is flat and mates with the laterally extending flange which is on the bearing receiving means. The two surfaces come together. In the lower bearing, the under face of the laterally extending flange on the bearing receiving member overlies the flat surface of the frame, so that the upper surface of the frame is the supporting surface for the green bearing receiving member, also some support provided by the vertical cylindrical portion of the lower bearing but not in the upper bearing.

Q (Mr. Lee): And is the relationship between the supporting surfaces and the mounting surfaces such as to permit the bearing-receiving elements to be initially adjustably shifted into oriented position?

A Yes, for the same reason that I gave before. The hole through which the bearing receiving element is inserted is slightly larger than the hole in the frame and the bearing receiving element can be oriented, tipped, rocked, tilted.

Q And after the bearing receiving elements have been so oriented, are they in alignment with each other?

A Yes, sir.

Lee's Direct Examination.

Rep. Tr. p. 2377, line 6, to p. 2378, line 23.

The arrangement of the parts in this device is such that there is a small clearance, dimensionally speaking, a clearance between the cylindrical portion of the red

cup and the hole in the gimbal and this permits them, within the limitations of the amount of motion we are talking about here, and you must understand we are talking about rocking rotation through a very small angular amount, this so-called loose fit as has been testified to permits that cup to be tilted or rocked relative to the gimbal frame.

THE COURT: All right, Mr. Lee, will you continue.

JOHN M. LEE,

the witness on the stand at the time of the noon recess, having been previously duly sworn, resumed the stand and testified further as follows:

DIRECT EXAMINATION (CONTINUED)

THE WITNESS: Before lunch we were applying the claim language of Claim 9 of the Adkins patent to the 2152 gyro and we were talking about the section of the claim language which is labeled B prime on the chart and we had gone through and pointed out where the supporting surfaces were and the mounting surfaces, and to review briefly, the mounting surfaces are on the red cups and the supporting surfaces are on the facing portions of the green gimbal, at the bottom the mounting surfaces on the red cup face the portions of the yellow ring, which is in turn secured to the green gimbal.

I have pointed out that the clearance is such that a slight rocking or tilting of the cup is possible with reference to the frame.

Adkins' Direct Examination.

Rep. Tr. p. 2444, lines 5-12.

THE WITNESS: And the jet airplanes was one of our biggest problems because when we got the jet airplanes, the gyroscope instruments were a crisis at Wright Field for several years because they had errors as much as 18 degrees when they would make a race track turn, that was one of the biggest problems that we had, and because of the fact that this was a big problem, we had to develop specifications for gyro systems to meet this requirement.

Argument to Jury by Mr. Hartz.

Rep. Tr. p. 2946, line 14.

get the angular tilt, and according to Mr. Comstock's

Rep. Tr. p. 2975, lines 11-12.

You cannot have the type of movement that is taught and required by the Adkins patent;

Judgment on Verdict in Open Court

In the Superior Court of the State of California, in and for the County of Los Angeles.

John S. Adkins, Plaintiff, vs. Lear, Incorporated, Defendant. No. 737267.

Filed May 1, 1964.

This action came on regularly for trial on the 9th day of March, 1964, the plaintiff appearing by attorney Peter Cohen, and the defendant appearing by attorney Edwin Hartz.

A jury of 12 persons was regularly impaneled and sworn to try the action. Witnesses on the part of the plaintiff and the defendant were sworn and examined. After hearing the evidence, the arguments of counsel, and instructions of the Court, the jury retired to consider of their verdict, and subsequently returned into Court, and being called answered to their names and duly rendered their verdict in writing in words and figures as follows, to wit:

"TITLE OF COURT AND CAUSE" We, the jury in the above entitled action, PURSUANT TO THE COURT'S DIRECTION, FIND FOR THE PLAINTIFF ON THE #2156 GYRO IN THE SUM OF \$16,351.93.

WE FURTHER FIND FOR THE PLAINTIFF AND AGAINST THE DEFENDANT FOR THE BALANCE OF HIS ACTION IN THE SUM OF \$888,122.56

THIS 1ST DAY OF MAY, 1964.

Virgil R. Witt
Foreman

WHEREFORE, by virtue of the law, and by reason of the premises aforesaid, it is ordered, adjudged, and decreed that said PLAINTIFF JOHN S. ADKINS have and recover from said DEFENDANT LEAR, INCORPORATED THE SUM OF \$904,474.49, with interest thereon at the rate of seven per cent per annum from the date of the verdict until paid together with costs and disbursements amounting to the sum of \$

[Seal]

Rulings on Motions for Judgment Notwithstanding the Verdict and, in the Alternative, for a New Trial.

Superior Court of the State of California, for the County of Los Angeles.

John S. Adkins, Plaintiff, vs. Lear, Incorporated, Defendant: No. 737 267.

Filed July 2, 1964.

Before the Court are defendant Lear's motions for judgment notwithstanding the verdict and, in the alternative, for a new trial.

The Court directed a verdict for plaintiff for \$16,351.93 as royalty under a license agreement for the use of plaintiff's bearing structure as described in patent No. 2-919-586. Defendant's liability for this amount rested upon its status as a licensee. Under the established rule it was estopped to deny the validity of its licensor's patent. Pursuant to the Court's direction, the jury returned the verdict. That portion of the verdict is not now disturbed.

But plaintiff claimed, in addition, that defendant's so-called "Michigan" device was subject to plaintiff's patent under the rule of equivalence. The jury so found and returned a verdict for royalties due in the sum of \$888,122.56.

In this phase of the case, the rule of estoppel does not apply. Lear is free to assert that its own device is not covered by plaintiff's patent and, further, that plaintiff's patent is invalid. Otherwise, plaintiff would be in the position of being able to assert estoppel against every product of Lear which plaintiff deemed an equivalent.

Plaintiff twice conceded at the trial that he had no part in designing or inventing defendant's "Michigan" device. Both of the structures involved here were designed by employees of Lear. Each was developed independently: plaintiff's at the Santa Monica, California, plant; defendant's in Michigan. Each was developed within a few weeks of the other. There was no collaboration or joint activity. Plaintiff sought a patent on its device and after protracted prosecution and a personal presentation at Washington, D. C., was granted certain claims. He now asserts that defendant's "Michigan" device is covered by his patent as an equivalent, under claims 9, 13, 14 and 16.

Neither device was put on the public market. Defendant used a limited number of plaintiff's devices as covered by the directed verdict. The "Michigan's" device has been used with success in defendant's gyroscopes.

The issues now presented are:

- (1) Is plaintiff's patent No. 2-919-586 valid?

- (2) Assuming its validity, does it cover defendant's device under the rule of equivalents?

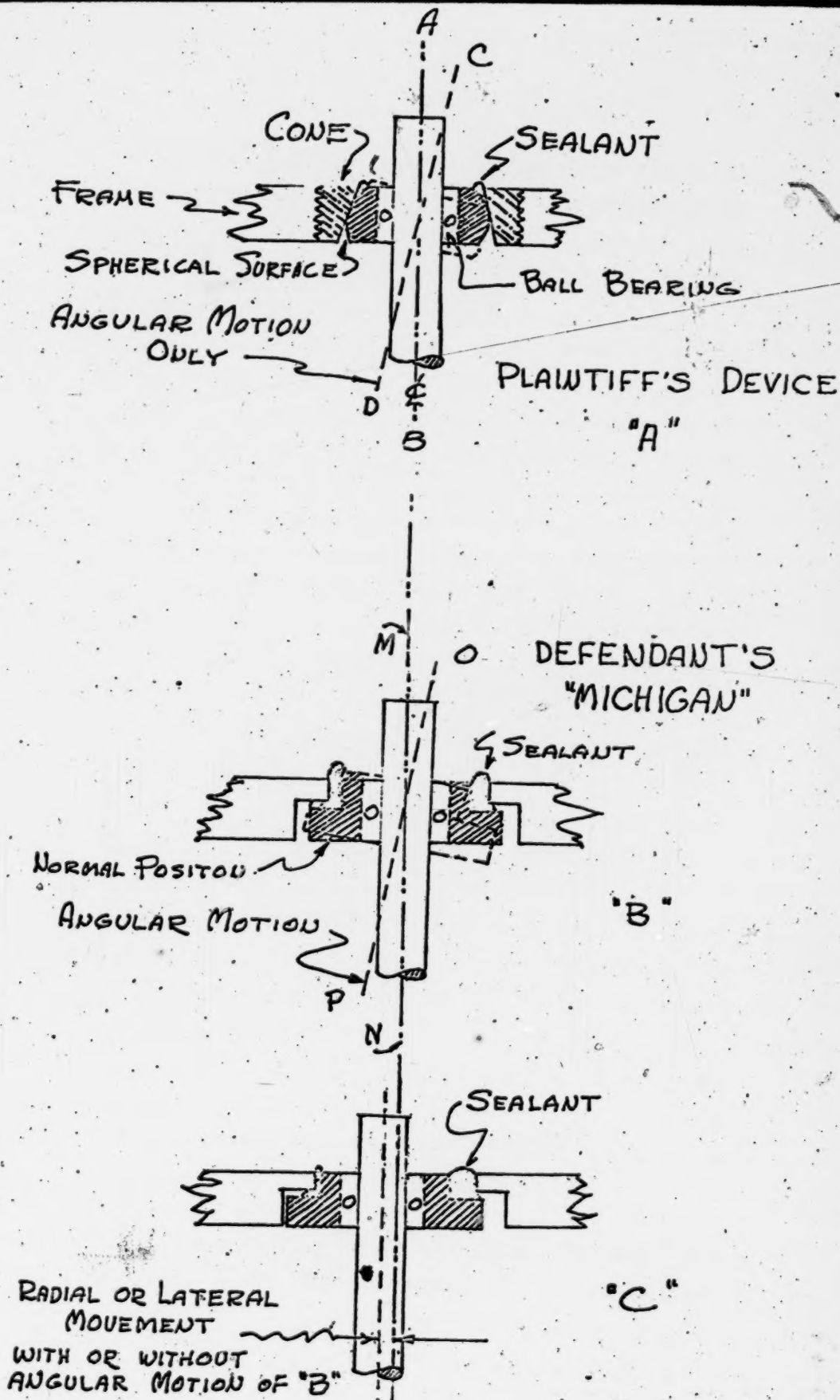
Plaintiff's patent is challenged frontally as a mere aggregation of features old in the art, as lacking invention, being within the skills of any craftsman in the field and long a device in the public domain.

Plaintiff's device is shown diagrammatically in sketch "A"; defendant's in sketch "B".

The asserted novelty of plaintiff's invention is the coaxing relationship of a pair of surfaces, such as a ball, or a section thereof, nesting in a cone, or a combination of surfaces comprising segments of two spheres. In such a device the inner element is capable of angular movement only.

Thus, in sketch "A", it is obvious that the only motion of the shaft A-B is the angular motion shown by a dotted line, such as C-D. No radial motion or adjustment is possible without separating the parts. To lift the ball upward in the cone so that sidewise or radial motion is possible would strip plaintiff's invention of its assigned functions and instead of practicing his invention, plaintiff would be ignoring it. To separate the parts in practice is to admit their inutility.

It is to be noted that in plaintiff's device contact between the inner part, such as a sphere, and the outer part, such as a cone, is limited to a single line of contact. This line of contact is circular if the shaft A-B coincides with the center line of the cone or funnel, otherwise it is an ellipse. There is no surface or area contact between the ball or inner element and plaintiff's cone, irrespective whether the latter is straight or spherical.



When the two bearings of plaintiff's device have been adjusted into place by means of a dummy shaft or mandrel, molten lead or plastic is applied in such manner as to prevent further movement between the cone and the sphere.

In defendant's device there is a cylindrical bearing holder with a flange for mounting in a slightly oversized hole in the frame. It may then be radially adjusted within the limits of the hole. Plastic or molten metal, such as lead, is then poured in the annular space between the bearing-holder and the frame. Angular adjustment may be made in this device as in Schwan's patent, which will be considered later. It may also be achieved simply by withdrawing the bearing-holder flange from the frame and tilting it as required. It is then sealed in place with plastic or molten metal.

The prior art cited in plaintiff's application included, inter alia, the following:

Sperry No. 1-342-397, which discloses a pair of bearings housed in sections of spheres for angular movement.

Carlson No. 2-352-469, wherein the shaft is angularly self-aligning by means of bearing-holders having outer spherical surfaces nesting freely within a cylindrical outer bearing-holder.

Grenat No. 2-531-334 shows a bearing sleeve tapered externally and internally formed to receive the shaft. The tapered sleeve fits into a hole in the frame and is adjustable angularly only. It is fixed in position by filling the annular space between the sleeve and the frame with a quick setting material such as Babbitt. The cone contacts the frame in a line only, and as in plain-

tiff's device this line forms a circle or an ellipse according to the position of the shaft. In simple form this device anticipates every feature of plaintiff's. Plaintiff evidently thought so, too, and purchased this patent.

Not cited by the Patent Office are the following significant patents:

Schwan No. 2-704-693 discloses a complete anticipation of the defendant's "Michigan" bearing. It shows a ball bearing, an element for holding said bearing—and an annular space between the bearing and the frame to provide for radial adjustment. All the claims are specific to radial adjustment of the bearing-holder.

It will be apparent at once that to the extent that either bearing in Schwan is moved radially in one direction and the other is moved less, or in any other direction, that an *angular* movement of the shaft has occurred at each bearing.

Moody No. 2-530-533 reveals a precise configuration of defendant's device—bearing sleeve—flanged bearing holder and housing. Add only a slightly oversized hole to permit adjustment and to secure the bearing and defendant's "Michigan" device is precisely and completely anticipated. Drilling an oversized hole and filling the annular space with plastic does not involve invention.

Herr No. 2-633-544 shows a conically tipped shaft rotating in a self-aligning hemispherical bearing, nesting in a cone in the same manner as plaintiff's. The bearings are free to adjust themselves to the axis of rotation precisely in the manner of plaintiff's.

No invention would be involved in substituting the sleeve or ball bearing for the conical bearing or solder-

ing in lieu of screw joints. This patent is a complete anticipation of plaintiff. It would be well within the skills of a mechanic to make plaintiff's device from the teachings of Herr alone.

In summary, defendant's "Michigan" device differs from plaintiff's in these particulars:

1. It may be adjusted radially after assembly. In contrast plaintiff's device has no radial motion whatever.

2. It may be adjusted angularly by tilting the shaft and bearings since contact between the bearing-holder and the supporting frame is not necessary.

3. Contact between the bearing-holder and the frame is a flat area of any desired size.

4. The bearing-holder is fixed in position directly to the frame. No intermediate member, such as plaintiff's cone, is required. This alone is a patentable distinction.

With the two devices now in focus, the prior art cited forces the question:

Was any patentable invention involved in plaintiff's patented device, or was it merely an aggregation of old parts and elements performing no new or different function?

This is purely a question of law. (*Bergman vs. Aluminum Lock*, Ninth Circuit, 1958—251 Fed. 2d 801; *Monroe Auto vs. Superior Industries, Inc.*, Ninth Circuit, May 22, 1964, U.S. Court of Appeals 141 U.S. Pat. Quarterly 710).

Neither device at bar represents or involves the inventive concept; neither has brought to light what lay hidden or created something which had not before existed. Neither device can be distinguished from the re-

sults of simple mechanical skill. A patent cannot be sustained when its effect is merely to subtract from former resources freely available to skilled artisans. (*Kwikset Locks v. Hilgren*, Ninth Circuit Appeals, 1954—210 Fed. 2d 483.)

The prior art, as disclosed by the patents cited above, dissipate any presumption of validity in the case at bar. "The existence of but one pertinent example of unconsidered prior art is not only sufficient basis to dissipate the presumption of validity, but may render the patent invalid". (*Monroe Auto vs. Superior*, supra.)

In *Great Atlantic & Pacific Tea Co., vs. Supermarket Equipment, etc.*, 340 US 147, the Supreme Court said: "The standard of patentability is a Constitutional standard; and the question of validity of a patent is a question of law. (Underscoring added). The Court fashioned in *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 336 US 271. . . . a rule for patent cases to the effect that this Court will not disturb a finding of invention made by two lower Courts, in absence of a further obvious and exceptional showing of error. That rule, imported from other fields, never had a place in patent law. Having served its purpose in *Graver Tank & Mfg. Co. vs. Linde Air Products Co.*, it is now in substance rejected. The Court now recognizes what has long been apparent in our cases; that it is the 'standard of invention' that controls. That is present in every case where the validity of a patent is in issue. It is that question which the Court must decide. No 'finding of fact' can be a substitute for it in any case. The question of invention goes back to the Constitutional standard in every case. We speak with final

authority on this Constitutional issue as we do on many others.

"Courts should scrutinize combination patent claims with a care proportioned to the difficulty and improbability of finding invention in an assembly of old elements.

"This patentee has added nothing to the total stock of knowledge, but has merely brought together segments of prior art and claims them in congregation as a monopoly."

In a concurring opinion Douglas and Black, JJ., pointed out that the Constitution does not sanction the patenting of gadgets.

Under the current rule in the federal courts, a holding of invalidity ordinarily renders moot any question of infringement or as more accurately stated in relation to the case at bar, a question of equivalence.

But it seems desirable, nevertheless, to dispose completely and separately of all issues raised.

Defendant's "Michigan" device represents even less an advance over the prior art than plaintiff's. The teachings of Schwan and Moody are so obvious that little further need be said to dispose of the matter.

It is sufficient to point out that a dunderhead, oversizing ever so little the bearing holes in Moody's patent, or using Schwan's bearing as it is, would come up with precisely the device manufactured by Lear.

Plaintiff also claims as an equivalent the so-called Tippy Washer used by defendant in some of its models. It is as well known in the crafts as an ordinary washer or nut or bolt. It is a flat, metal washer

with slight humps diametrically placed on the periphery. This permits small angular movements of a shoulder shaft. In defendant's application the washer was also shiftable in a radial direction. Clearly, neither plaintiff's claims nor his assertion of equivalency cover the Tippy Washer.

Since, as a matter of law, neither of defendant's devices could be the subject of a valid patent to anyone, it follows that plaintiff cannot claim them as equivalents under or as infringing his patent (even if valid).

The motion for judgment notwithstanding the verdict is granted in part, namely, the directed verdict for plaintiff for \$16,351.93 shall stand, but the balance of the verdict for plaintiff and against defendant is set aside and a judgment in lieu thereof is entered against plaintiff and for defendant.

Dated July 2nd, 1964.

/s/ Brodie Ahlport
Judge of the Superior Court

Ruling on Motion for a New Trial.

Defendant moved for a new trial in the alternative to an order for a judgment for defendant notwithstanding the verdict, and assigned as grounds therefor:

1. Irregularity in the proceedings on the part of plaintiff by which defendant was prevented from having a fair trial.
2. Excessive damages appearing to have been given under the influence of passion or prejudice.
3. Insufficiency of the evidence to justify the verdict, or that it is against law.
4. Errors in law, occurring at the trial and excepted to by the defendant.

Defendant's foregoing motion is granted on and as to each and all of the grounds specified. Further, the Court finds specifically that the evidence was insufficient to justify the verdict and that the verdict is against law, and grants a new trial on each of said grounds.

Dated July 2nd, 1964.

/s/ Brodie Ahlport
Judge of the Superior Court

Part of and attached to Ruling on Motion for Judgment notwithstanding the verdict and for new trial in *Adkins vs. Lear*, No. 737 267.

**Judgment for Defendant Notwithstanding
the Verdict.**

Entered, William G. Sharp, County Clerk, July 15,
1964. Book 5092, Page 018. G. C. Ericsson.

Filed July 10, 1964. William G. Sharp, County Clerk.
By D. Brownfield, Deputy.

Superior Court of the State of California, for the
County of Los Angeles.

John S. Adkins, Plaintiff, v. Lear, Incorporated, etc.,
et al., Defendants. No. 737 267.

The motion of defendant Lear, Incorporated for a
judgment for defendant notwithstanding the verdict
having heretofore been submitted is granted in part for
the reasons set forth in the "Ruling on Motions for
Judgment Notwithstanding the Verdict and in the alter-
native for a new trial" and:

1. That part of the judgment for plaintiff John S.
Adkins in the amount of \$888,122.56 entered on the
verdict on May 4, 1964 in Book 5033 at Page 47 is
set aside and vacated and judgment for defendant Lear,
Incorporated entered thereon notwithstanding the ver-
dict.

2. That part of the judgment for plaintiff in the
amount of \$16,351.93 entered on the directed verdict
on May 4, 1964 at said book and page is not affected
hereby in any way or at all and shall stand as entered.

Dated: July 10, 1964.

/s/ Brodie Ahlport
Judge of the Superior Court

[Seal]

Amendment to Judgment.

Superior Court of the State of California, for the County of Los Angeles.

John S. Adkins, Plaintiff, vs. Lear, Incorporated, et al., Defendants. No. 737-267.

Filed Dec. 30, 1964.

The judgment in the above entitled action entered on May 4, 1964, in Judgment Book 5033 at Page 47, is hereby amended as follows:

"At the outset of the trial, plaintiff John S. Adkins waived all ideas, discoveries and inventions under the second cause of action except for the idea, discovery and invention which is the subject matter of U.S. Patent No. 2,919,586. The Court then required plaintiff to elect between the first and second cause of action, and when plaintiff refused to do so, the Court then dismissed the second cause of action which, after the plaintiff's waiver, remained for the idea, discovery and invention which is the subject matter of U.S. Patent No. 2,919,586, and the same is hereby dismissed."

Dated: December 30, 1964.

Brodie Ahlport

Judge of the Superior Court

The Document to which this Certificate is attached is a full, true and correct copy of the original on file and of record in my office.

Attest February 16, 1965. WILLIAM G. SHARP
County Clerk and Clerk of the Superior Court of the State of California, in and for the County of Los Angeles.

By R. K. Pachy
Deputy

(Title Omitted in Printing)

Pages 39-64 of Lear's "Opening Brief for Lear Concerning the Directed Verdict and the Denial of Lear's Motion for Judgment Notwithstanding the Verdict, All With Respect to the 2156 Gyro-scope."

II.

[39]

The License Agreement Was Terminated on April 8, 1959, and Was of No Force or Effect After That Date.

On April 8, 1959, defendant notified plaintiff by registered mail (which was received by plaintiff) as follows:

"Reference is made to License Agreement between you and Lear, Incorporated dated the 15th day of September, 1955.

"Pursuant to its rights of termination as contained in said agreement, including but not limited to Paragraphs 2(a) and 6 thereof, Lear, Incorporated hereby exercises its rights and options to terminate the agreement and licenses therein granted" [Ex. 39].

Paragraphs 2(a) and 6 of the license agreement [Ex. 8] state in pertinent part as follows:

"2. GRANT.

(a) . . . Lear shall have the right on ninety days' prior written notice to Adkins, to terminate any one or more of the licenses herein granted."

"6. INVALID PATENTS.

"In the event . . . the U. S. Patent Office refuses to issue a patent on the substantial claims of the application attached as Exhibit 'B' [this is plaintiff's application Serial No. 410,237 which became Patent No. 2,919,586] or if such a patent so issued is subsequently held invalid, . . . then in any of such events Lear at its option shall have the right forthwith to terminate the specific license so affected or to terminate this entire Agree-

[40]

ment and no further royalties shall thereupon be payable under the license so terminated or under this Agreement if Lear shall have elected to terminate this Agreement in its entirety."

In accordance with the provisions of paragraph 9 of the license agreement [Ex. 8] defendant had the right to monitor the proceedings concerning plaintiff's patent application.

By April, 1959, plaintiff's patent application had been pending for more than five years, and no claims directed to bearing mountings had been allowed. These claims had been repeatedly rejected by the Patent Office as being unpatentable, and plaintiff had not obtained allowance of any substantial claims or any claims that could possibly provide patent protection for defendant's products.

On April 8, 1959, defendant exercised its rights to terminate the agreement because the agreement provided no benefit to defendant in return for the more than \$30,000 in royalties it had paid plaintiff.

Some unidentified person in the law firm representing plaintiff interviewed the Examiner and without setting forth the reasons for getting the Examiner to reverse his position, obtained an agreement from the Examiner that some newly drafted claims 29-36 would be allowable. These claims were filed in the Patent Office on April 30, 1959 [Ex. P—p. 68], approximately three weeks after the license agreement was terminated. They were allowed by the Patent Office on July 21, 1959 [Ex. P—p. 70], three and one-half months after the agreement was terminated, and the patent issued about nine months after the agreement was terminated. During this period of time, defend-

[41]

ant's former Patent Agent, Perry Turner, was representing plaintiff and actually signed his name or caused his initials to appear on papers filed in the application during the part of this period after he became admitted to the California Bar on June 10, 1959 [Ex. P—pp. 71, 73, 83, 84]. Mr. Turner worked under the supervision of Mr. Patton who signed the other papers filed in the application [p. 1881, Ex. P]. He asserted the attorney-client privilege with respect to the full extent of his participation [Clk. Tr. pp. 422-427].

Thus, defendant terminated the license agreement before any pertinent claims were allowed, while Mr. Turner was seeking allowance of the application on behalf of plaintiff, and before the patent issued on January 5, 1960.

The trial court ruled on numerous occasions that the license agreement was terminated on April 8, 1959, as a matter of law.

At the beginning of the trial the court stated to the jury:

“There was a clause in this agreement permitting defendant to withdraw or terminate under it, which they did . . .” [p. 239].

During some of the proceedings in chambers, the following colloquy took place:

“Mr. Hartz: Yes; under the terms of the agreement, under Paragraph 2 (a) which provides that Lear on 90 days written notice may terminate this agreement, under Paragraph 6 which states that in the event the U. S. Patent Office refuses to issue a patent on substantial claims, Lear has the option to forthwith terminate this agreement.

[42]

The Court: There is no question about the right to terminate.

Mr. Hartz: All right.

The Court: Now, I am talking about the Lear device, the Michigan device.

Mr. Hartz: Yes.

Mr. Cohen: I assume I am going to get the right to be heard at length on this.

The Court: After the notice of termination do you feel that you thereby acquired the right to use the Adkins device without burden or liability of any kind?

Mr. Hartz: Only subject to his patent rights, yes, your Honor, that is correct.

The Court: In other words, you feel that Adkins is remitted solely to an action for infringement.

Mr. Hartz: That is correct. That has been our position from the beginning.

Mr. Cohen: That is directly contrary to the holding in *Seagren v. Smith* and 63 Cal. App. 2d, which covered this exact point and is the only case in California that covers this point. So they are arguing in the face of authority from the District Court of Appeal." [pp. 2583-2584].

Toward the end of the trial the court stated during the proceedings in Chambers:

"Mr. Hartz: Yes, your Honor, but we submit that we, having terminated the license, can challenge the validity and we submit that the *Stimson Computing Scale Company* case, and these two sections in *Walker on Patents*, which is Section 385 and Section 391 make this the rule that you can contest the validity after termination.

[43]

Mr. Cohen: Your Honor has already ruled that Seagren v. Smith is applicable as to that and they have not effectively terminated the agreement under Seagren v. Smith, which is the holding of that case.

The Court: No, I hold that they have terminated the agreement, but they are liable for any royalties that may have been incurred before or after if they continue to use the device that was under the protection of the Adkins patent." [p. 2627].

Plaintiff endeavored to straddle the issue of termination, and he submitted alternative jury instructions to the effect that the agreement was not terminated and to the effect that the agreement was terminated. By way of example, plaintiff's requested instruction No. 47 states in part:

"You are instructed that because Lear continued to manufacture 2152, 2153 and 2156 gyros which are covered products after April 8, 1959 that Lear's attempt to exercise the termination right under Paragraph 2(a) was wholly ineffective to terminate the license of the bearing alignment invention for the reason that Lear could only exercise 2(a) termination if at the same time or before exercise thereof Lear stopped manufacture of gyros incorporating the bearing alignment invention." [p. 3400, lines 14-23].

This instruction, along with several others to the same general effect, was refused.

Toward the end of the trial plaintiff took the position that the agreement was terminated as a matter of law, but that Lear was liable under the unjust en-

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richment doctrine of *Seagren v. Smith* (1944), 63 Cal. App. 2d 733. Plaintiff even obtained a jury instruction to that effect which states:

"PLAINTIFF'S REQUESTED JURY INSTRUCTION NO. 49

"Even though the license of the bearing alignment invention was terminated by Lear's letter of April 8, 1959 and of no further force or effect, Lear is nevertheless liable to Adkins for royalties if you find that any products covered by Adkins' patent were thereafter manufactured and sold by Lear." [p. 3080].

This portion of plaintiff's requested instruction No 49 was given without modification by the court. Plaintiff cited *Seagren v. Smith*, as authority for this portion of the instruction. A second paragraph of the requested instruction No. 49 was stricken [p. 2772].

The following colloquy took place in chambers with respect to jury instructions concerning the issue of termination:

"The Court: I was under the impression that your stipulated statement of facts support the instruction that of April 8, 1955 [sic] the agreement was terminated.

"Mr. Hartz: It was stipulated the letter was sent and received and it is our position that this is sufficient for the termination. This is all that was required. All the conditions were met and as a matter of law the termination was effective.

The Court: I don't know what question of fact remains.

Mr. Cohen: That is the point, your Honor. I think it should be removed from the jury as not a

[45]

question of fact for them since your Honor has instructed them on it as a question of law.

The Court: Oh, you are not objecting to the recital of the matter as a question of law?

Mr. Cohen: Not in that form.

The Court: I gave it to the jury because it seemed to me that for them to get the whole picture it was necessary for them to have the facts of termination before them. If there is any question in anybody's mind as to what the jury could reasonably feel about it, why, I will make it very clear to them.

Mr. Cohen: Your Honor stated, the effect was that the letter did effect the termination, but that as a matter of law they were still liable for the agreed royalty rate if they continued to manufacture the product. Now, this, as I say, and I think that Mr. Hartz agrees, is a matter of law. Your Honor has correctly instructed them on this matter of law, as you determined the matter of law to exist, and it should not go to them under the instruction that they can find as a matter of fact that the agreement is terminated in conflict with your Honor's instructions on that subject.

The Court: I am afraid I don't follow you.

Mr. Cohen: *What I am saying is that your Honor instructed them that the agreement was terminated by the letter of April 8, 1959.*

The Court: Yes.

Mr. Cohen: *But that thereafter Lear would continue to be liable for royalties at the agreed royalty rate if they continued to manufacture the products that are covered by the patent.*

The Court: *You agree with that, do you not?*

Mr. Cohen: *Yes, your Honor.*

Mr. Hartz: *We do not, your Honor.*

Mr. Cohen: That is the *Seagren v. Smith* case, which is a correct proposition of law. However, the jury must find in accordance with that instruction of law, and does not have the right to find it as a question of fact that the agreement was terminated and that therefore no further royalties are due." [pp. 3042-3043]. (Emphasis ours.)

Thus, plaintiff and defendant and the trial court all agreed that the license agreement [Ex. 8] was terminated as a matter of law. Plaintiff and the trial court were of the opinion that any liability would be based upon the unjust enrichment doctrine as set forth in *Seagren v. Smith* (1944), 63 Cal. App. 2d 733. Defendant did not agree that *Seagren v. Smith* applies, and this issue will be discussed in section IV of this brief.

It is submitted further that the directed verdict is in error because the license agreement was terminated, and the law is clear that the doctrine of license estoppel does not continue after termination of the agreement. The case of *Seagren v. Smith, supra*, is not in conflict with this principle because the issues of validity and infringement of a patent issued after the termination of a license agreement were not raised or decided in that case.

It is also submitted that the directed verdict is in error concerning the infringement issue because the doctrine of licensee estoppel has never applied to infringement or the questions of coverage.

The directed verdict is also in error because there is a complete failure of consideration to support any obli-

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gation imposed by law, such as under the unjust enrichment doctrine of *Seagren v. Smith*.

When a license includes a termination provision which is exercised by either party, any estoppel to contest validity of the licensed patent does not continue beyond the date of termination. The reason for the rule is that after termination the licensor-licensee status is at an end and the parties stand in the same position and with the same rights that strangers have.

Davis v. Buck-Jackson Corporation (4th Cir. 1956), 230 F. 2d 655;

Miehle Printing Press & Mfg. Co. v. Publication Corporation (7th Cir. 1948), 166 F. 2d 615;

Measurements Corp. v. Ferris Instruments Corp. (3rd Cir. 1947), 159 F. 2d 590;

Tate v. Baltimore & O. R. Co. (4th Cir. 1915), 229 Fed. 141;

Stimpson Computing Scale v. W. F. Stimpson (6th Cir. 1900), 104 Fed. 893;

Walker on Patents (Deller's Ed.), 1937, pp. 1496 and 1505.

The basic rules of licensee estoppel are summarized in 69 *Corpus Juris Secundum*, §160.a(1), page 621 wherein it is stated:

"In general a licensee, during the continuance of the license, is estopped to deny the validity of the patent on any ground."

See also 69 C.J.S. §160.a(3), page 624.

And in 69 C.J.S., §254c, page 784, wherein it is stated:

"As a general rule the lawful cancellation of a patent license relegates the parties to their status prior to the granting of the license. . . .

Except as the agreement may otherwise provide, on proper termination of the license, the rights and liabilities of the licensee thereunder are likewise brought to an end . . . he (the licensee) is no longer estopped to deny the validity of the patent . . .”

In *Miehle Printing Press & Mfg. Co. v. Publication Corporation, supra*, the court held that licensee estoppel does not survive termination of the license agreement, stating, at page 618:

“We recognize, of course, the rule by which a patent licensee may be estopped during the term of the license to dispute the validity of the patent, but we are of the view that it has no application where the licensee effects a valid cancellation of the license agreement, as was done here.”

The case of *Stimpson Computing Scale Co. v. W. F. Stimpson, supra*, involved a very similar factual situation to that of the present case. In the *Stimpson* case the licensor had a patent application pending in the Patent Office and the patent issued at a later date. The license agreement provided that the licensee shall have the right to determine the agreement and its obligations thereunder by giving six months’ notice in writing to the licensor. The court held that the licensee could terminate the agreement by giving the prescribed notice and stated at page 897:

“ . . . That being out of the case, we can find no ground on which to restrain the manufacture and sale by the appellants of the articles mentioned. It may expose the appellant to a suit for infringement, but that, as we have said, is foreign to the purpose of the present suit. Aside from the patent,

▷ [49]

there is nothing to prevent the appellant from selling the same kind of goods as it sold during the term of the contract.”

The case of *The Armstrong Company v. Shell Company of California* (1929), 98 Cal. App. 769 is to the same effect. The majority decided the *Armstrong* case on another and separate issue. However, this does not detract from the fact that the above rules of law are recognized in California. As stated in the *Armstrong* case at page 778:

“Appellant next contends that the trial court erred in overruling plaintiff’s motion to strike out all testimony, exhibits and proofs offered for the purpose of showing that plaintiff’s patent was invalid. It is a well-recognized rule of law that a licensee under a patent right cannot dispute the validity of his licensor’s patent. But an apparent exception to the rule of estoppel exists where the licensee repudiates the license.”

The exception is even more applicable where the license agreement is terminated in accordance with termination provisions therein, as in the present case, because the former licensee thereafter neither receives nor enjoys any benefit or protection under the patent or patent applications covered by the agreement. The analysis in the *Armstrong* case continues on page 779:

“... A licensee is estopped to show the invalidity of licensed patents as a defense to an action for royalties only so long as the relation of licensor and licensee continues and the licensee uses and enjoys the benefit and protection of the patents covered by the agreement. ... A licensee, if the pat-

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ents are in fact invalid, may, without waiting to be evicted, denounce and abandon the license, and after giving notice thereof to the licensor, may defend against an action to enforce the license or to recover royalties subsequently accruing, with the same freedom as may a stranger to the patent, and the licensor is remitted to his infringement suit."

It is noted in the *Armstrong* case that the situation is more favorable to the former licensee when the agreement is terminated rather than repudiated. This recognition that a termination provision always allows the former licensee to contest the validity after termination and an analysis of the reason for licensee estoppel is set forth in the *Armstrong* case, beginning on page 779:

"... The contention is made, and some support therefor may be found in the books, that a licensee cannot, *in the absence of a provision permitting the license to be terminated*, contest the validity of patents covered by the agreement, even after renunciation and notice. This contention originates in the commonlaw doctrine of estoppel by covenant. It requires to support it, first, a special admission, of fact, namely, that the patent is valid, or that the licensor is the first and true inventor of the invention covered by the patent; and second, a deed or covenant under seal which, at common law, barred a party thereto from disputing the truth of an admitted fact. It is doubtful if this rule ever had any application in equity, which from early days, gave relief against deed or agreements under seal in certain situations; but, be that as it may, the true rule, in my opinion, now is that the licensee, whenever he ascertains that the patents covered by the license

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agreement are invalid, may refuse to be further bound thereby, and, upon repudiation and notice, may thereafter defend against an action for royalties or an infringement suit as freely as may a stranger. This is particularly true in a case like the present, where the license agreement contains no recital or clause admitting the validity of the patents and no stipulation not to dispute or contest the validity thereof. If the patents are in fact invalid, then there is no continuing consideration for the agreement, and as was said by Mr. Justice Brown in *Pope Mfg. Co. v. Gormully*, 144 U.S. 234 [36 L. Ed. 414, 12 Sup. Ct. Rep. 636, see, also, Rose's U.S. Notes]: 'It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly.'"
(Emphasis added.)

The limits of the licensee estoppel doctrine were recognized as early as 1886 in the case of *Brown v. Lapham* (S.D. N.Y., 1886), 27 Fed. 77. In the *Brown* case the defendants were prior licensees of plaintiff who had brought suit against them in equity and who had moved for a preliminary injunction. The court answered plaintiff's motion in the following manner as set forth at page 77:

"... The plaintiff relies upon the estoppel of the defendants to deny the validity of the patent growing out of the license and the operating under it by them. There is no fair question but that a licensee under a patent is estopped to deny its validity of any question arising out of that relation between the parties. *Kinsman v. Parkhurst*, 18 How. 289.

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It does not follow that he will be always estopped because he has stood in that relation. When he stands out from under the license, and claims nothing from it, and does nothing more under it, with full knowledge to the licensor of his position, he would appear to be at as full liberty to contest the patent as anyone . . ."

Additional authorities to the same effect are:

H. Tibbe & Son Manufacturing Co. v. Heineken
(Circuit Court S.D. N.Y. 1889), 37 Fed. 686;

DeCrew v. Union Bag & Paper Corp. (N.J. 1944), 57 F. Supp. 388;

Howe v. Atwood (E.D. Mich. 1942), 47 F. Supp. 979;

Frost Ry. Supply Co. v. T. H. Symington & Son (Md. 1938), 24 F. Supp. 20;

Chance v. Lehigh Navigation Coal Company (E. Pa. 1938), 25 F. Supp. 532;

Eskimo Pie Corporation v. National Ice Cream Co. (W.D. Ky. 1927); 20 F. 2d 1003;

Bituminous Products Co. v. Headley Good Roads Co. (D. Del. 1924), 2 F. 2d 83.

With respect to infringement, even an existing licensee or assignee to which the doctrine of licensee estoppel applies, is not liable for royalties under a license contract when the patent claims construed in light of the specification, patent history, and prior art do not cover defendant's manufactured products.

Westinghouse Electric & Mfg. Co. v. Formica Insulation Co. (1924), 266 U.S. 342;

Baldwin Rubber Co. v. Paine & Williams Co.
(6th Cir. 1939), 107 F. 2d 350;

Farmland Irrigation Co. v. Dopplmaier (1957),
48 Cal. 2d 208;

Garland v. Remington Arms Company (S.D.
N.Y. 1956), 137 F. Supp. 622.

It is also settled California law that mere nonpayment of royalties allegedly due under a licensed application is not a breach, and does not constitute a basis for awarding royalties when the claims of the patent which issues do not cover the manufactured products or the invention as originally represented and warranted by the licensor. *Marvin v. Mills Alloys, Inc.* (1939), 31 Cal. App. 2d 549.

Furthermore, a licensee who is estopped to contest validity, is not liable for royalties under a license contract even if the claims of a subsequently issued patent literally read on manufactured products, when it is shown that such products are built wholly according to the prior art teachings plus ordinary mechanical skill. *Scott Paper Co. v. Marcalus Mfg. Co.* (1945), 326 U.S. 249; *Casco Products Corp. v. Sinko Tool & Mfg. Co.* (7th Cir. 1940), 116 F. 2d 119, cert. denied (1941), 312 U.S. 693.

Plaintiff has relied upon the cases of *Automatic Radio Mfg. Co. v. Hazeltine Research* (1950), 339 U.S. 827; *Bowers Mfg. Co. v. All Steel Equipment, Inc.* (9th Cir. 1960), 275 F. 2d 809; and *Del Riccio v. Photochart* (1954), 124 Cal. App. 2d 301 [Clk. Tr. p. 2326] in support of his assertion that defendant cannot contest either the validity or infringement of plaintiff's patent. These cases are not in point.

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The *Automatic Radio* case merely restated the rule of licensee estoppel where the license was still in effect and there had been no termination or end to the agreement.

The Ninth Circuit case of *Bowers* and the California case of *Del Riccio* do not in any way negate the rule of law that after termination of the license agreement there is no estoppel.

The *Bowers* case was an action to require specific performance of a non-exclusive license concerning a patent which had already issued. The license was entered into to avoid an infringement suit by the patent owner after exchange of correspondence concerning infringement of the patent. The license agreement had certain cancellation provisions, but the license did not terminate the license in accordance with these provisions of the agreement. Instead, the licensee attempted to repudiate the agreement on the basis of failure of consideration. The court pointed out that the consideration for the non-exclusive license was essentially a shield from suit for infringement by the grantor, and hence the invalidity of the patent would not constitute failure of consideration for such a license and, thus, would not support a repudiation. The court went on to point out, however, that where the consideration is the monopoly value of the patent, invalidity of the patent would constitute failure of consideration for such a license.

The patentee in the *Bowers* case summarized the question before the court as follows:

"The execution of the license agreement is admitted by BOWERS, as are all of the facts leading up to the execution of the license agreement.

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BOWERS contends that as a non-exclusive licensee it has the right at any time to repudiate, abandon, and terminate the license agreement by its unilateral action, notwithstanding the fact that the license agreement in paragraph III (R-38) specifically provides that BOWERS shall have the right to cancel the agreement only in the event (a) that the Keierleber patent is held invalid by a court of competent jurisdiction; and (b) if BOWERS completely discontinues the manufacture and sale of products covered by the Keierleber patent. Except for these two specific grounds for termination, neither of which has occurred, the license, as provided in paragraph I (R 37), was to extend for the full term of the patent, which term ends in July of 1964.

"The single question on this appeal is one of law and may be simply stated as follows: May a nonexclusive licensee by a unilateral notice of termination effectively terminate a license agreement contrary to the terms thereof?" [Clk. Tr. p. 1808].

The *Bowers* case merely held that a non-exclusive license entered into as "a shield from suit for infringement by the grantor" [275 F. 2d 809, 811] cannot be repudiated or terminated contrary to the provisions of the license agreement. Thus, the court held that the repudiation or purported termination did not terminate the license agreement, and the court ordered specific performance of the agreement. In the present action both plaintiff and the court have agreed that the license agreement was terminated as a matter of law in accordance with the provisions of the agreement. Hence, the *Bowers* case does not apply at all.

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Moreover, the *Bowers* case involved a non-exclusive license concerning an issued patent having known claims at the date of the license agreement. The licensee even admitted infringement. The licensee stated:

"There is no question in our mind that one of our clamps is fully covered by your patent . . ."
[Clk. Tr. p. 1801].

In the present case the license was exclusive with a provision that it could become non-exclusive upon certain conditions subsequent, and it was based upon claims in a patent application which were never obtained. The claims that were ultimately obtained do not cover defendant's products and they are invalid. The defendant had the right to participate in the enforcement of any patent which issued against defendant's competitors [Clk. Tr. p. 22]. The competitive value of the patent was the consideration in the present action and it failed to materialize, whereas a mere "shield from suit for infringement" was the consideration in the *Bowers* case. There was a failure of consideration in the present action, but not in *Bowers*.

The *Del Riccio* case, *supra*, is to the same effect as the *Bowers* case. In the *Del Riccio* case a license agreement concerning an issued patent was entered into in order to compromise existing litigation between the parties. The court held that the non-exclusive licensee could not contest the licensed patent because the consideration for the agreement was primarily the compromise of previously existing litigation between the parties concerning the patent. Thus, the primary consideration was not an enforceable patent monopoly to be established by the allowance of substantial claims in a valid patent, as it was in the present case.

[57]

In the present action everyone is in agreement that the license agreement was terminated and of no further force or effect after April 8, 1959. Thus, the doctrine of licensee estoppel simply does not apply.

Plaintiff has no protectible property rights after the agreement was terminated other than the rights conferred by the United States Patent Laws. Defendant has no duty to plaintiff after the agreement was terminated. Hence, there is no basis for any obligation subsequent to April 8, 1959; as more fully discussed in the next sections of this brief.

III.

No Protectible Property Rights Exist for Plaintiff Subsequent to Termination of the License Agreement Other Than His Rights Under the United States Patent Laws.

At the beginning of the trial in the introductory statements to the jury, the court characterized this action as follows:

"There was a clause in this agreement permitting the defendant to withdraw or terminate under it, which they did; subsequently the plaintiff's employment itself was terminated.

"This is an action in which the plaintiff is claiming that certain devices made by Lear came within the call of this patent and that he is entitled to the royalties at an agreed rate which I think was $1\frac{1}{4}$, wasn't it?" [p. 239].

At the end of the trial the trial court in the jury instructions characterized the action in the same way, as follows:

"PLAINTIFF'S REQUESTED JURY INSTRUCTION NO. 49

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"Even though the license of the bearing alignment invention was terminated by Lear's letter of April 8, 1959 and of no further force or effect, Lear is nevertheless liable to Adkins for royalties if you find that any products covered by Adkins' patent were thereafter manufactured and sold by Lear." [p. 3080].

Thus, the trial court characterized the action as one to enforce plaintiff's patent apart from the license agreement, and that is what the directed verdict with respect to the 2156 gyros amounts to. If the judgment of the trial court were to be upheld, it would be *res judicata* that defendant is liable for any 2156 gyros that defendant sells during the life of plaintiff's patent which expires on January 5, 1977.

However, any rights which plaintiff has with respect to his patent, apart from those based upon the license agreement [Ex. 8], must be based upon his statutory patent rights, and not upon the common law or upon state law. Such rights arise under the United States Patent Laws, and the state courts do not have jurisdiction to enforce such rights.

28 U.S.C. 1338 states:

"(a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases."

Rights under state law which conflict with the objectives of the Federal patent laws have been considered recently by the United States Supreme Court and by many lower courts.

[8.] [59]
In *Sears, Roebuck & Co. v. Stiffel Co.* (1964), 376 U.S. 225, 11 L. Ed. 2d 661, the trial court and the Court of Appeals held a patent invalid for want of invention and then awarded damages to the plaintiff anyway on the grounds of unfair competition. With reference to a cause of action under state law concerning the device of the patented invention, the Supreme Court stated:

"Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the Federal patent laws.

"In the present case the 'pole lamp' sold by Stiffel has been held not to be entitled to the protection of either a mechanical or a design patent. An unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so."

In *Compco Corp. v. Day-Brite Lighting, Inc.* (1964), 367 U.S. 234, 11 L. Ed. 2d 669, the Court was faced with a similar situation in which the trial court and the Court of Appeals had held the patent invalid and in the public domain. The Supreme Court held that damages cannot be imposed under state law with respect to copying the patented device because this would:

"... interfere with the federal policy, found in Art. I, § 8, Cl. 8, of the Constitution and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain. Here Day-Brite's fixture has been held not to be entitled to

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a design or mechanical patent. Under the federal patent laws it is, therefore, in the public domain and can be copied in every detail by whoever pleases."

With reference to the first cause of action based upon the express agreement concerning plaintiff's patent, the trial court found that the agreement was terminated. As an incident to interpretation of the agreement, and as an incident to plaintiff's allegation of unjust enrichment under *Seagren v. Smith*, and as an incident to the defenses of failure of consideration to support any kind of obligation, the trial court properly considered the validity of plaintiff's patent and held it invalid. Accordingly, damages cannot thereafter be imposed against defendant under guise of state law, such as on the theory of unjust enrichment found in the case of *Seagren v. Smith*. To award damages on unjust enrichment would interfere with the federal policy, found in Art. I, §8 of the Constitution and in the implementing federal statutes as set forth in the *Compco* and *Sears* cases.

The *Sears* and *Compco* decisions were considered in *Jerrold Stephens Co. v. Alladin Plastics, Inc.* (S.D. Calif. 1964), 229 F. Supp. 536 at page 539 where the court stated that these cases:

"... settle, as a matter of law, the proposition that where a party depends upon the Federal Patent Laws, it cannot, under common law State right or Statutory State right recover for unfair competition."

In the present case only rights available to plaintiff were those arising under the agreement on patentable claims. The agreement has been terminated, and

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plaintiff cannot now assert some other right under the common law or under state law, such as the unjust enrichment doctrine of *Seagren v. Smith*, in an attempt to enforce the patent rights which have been declared to be invalid and hence in the public domain.

The *Sears* and *Compco* decisions were also considered in *Cable Vision, Inc. v. KUTV, Inc.* (9th Cir. 1964), 335 F. 2d 348, at page 351, where the court stated with reference to counts for unfair competition and contract interference and violation of quasi property rights:

"To the extent, then, that the District Court holding extended a new protectible interest beyond what the copyright laws confer, it * * * interfere(d) with the federal policy * * * of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.' *Compco Corp. v. Day-Brite Lighting, Inc.* 376 U. S. 234, 237, 84 S. Ct. 779, 782 (1964). This same principle likewise applies to appellees' claim of contract interference. Parties by mere expedient of an exclusive contract can not 'bootstrap' into existence rights from subject matter which at their source lie in the public domain."

In a Law Review article entitled "Protection of the Inventor Outside the Patent System" the commentator stated:

"The common law, stressing secrecy, and the patent statutes, stressing disclosure, are mutually inconsistent, at least to a considerable extent. Although a patent application is not destructive of secrecy, the issued patent contains the patentee's full and voluntary public disclosure. Accordingly,

common law protection is thereafter unavailable even though the patent may ultimately prove void.”
43 Cal. Law Rev. 457, 467 (1955).

California statutory law is in accordance with the above quotations to the effect that plaintiff has no protectible property rights under the common law or under state law.

California Civil Code, Section 980(b) states:

“The inventor or proprietor of any invention or design, with or without delineation, or other graphical representation, has an exclusive ownership therein, and in the representation or expression thereof, which continues so long as the invention or design and the representations or expressions thereof made by him remain in his possession.”

California Civil Code Section 983(b) states:

“If the owner of any invention or design intentionally makes it public, a copy or reproduction may be made public by any person, without responsibility to the owner, so far as the law of this State is concerned.”

Prior to 1947, Civil Code Sections 980 and 983 were at times construed as providing that “ideas” were protectible property. However, the sections were amended in 1947 to unequivocally exclude “ideas” and California statutory law is now in accord with the common law with respect to ideas.

Desny v. Wilder (1956), 46 Cal. 2d 715, 732;

Thompson v. California Brewing Co. (1957),
150 Cal. App. 2d 469.

[63]

Plaintiff's alleged invention has not remained in his possession, and he has intentionally made it public. The 2156 gyros were sold and shipped to customers as early as 1956 [p. 1116, line 8; Ex. 48]. The patent which plaintiff asserts cover the 2156 gyros became a public document on January 5, 1960. In accordance with Civil Code Sections 980 and 983 plaintiff has no protectible property rights in the 2156 gyros after 1956 "so far as the law of this state is concerned", other than the rights with respect to defendant which were created by the license agreement. Those rights were terminated on April 8, 1959.

These code sections were considered by this Court in *Shanahan v. Macco Construction Co., Inc.* (1964), 224 Cal. App. 2d 327. This Court found that any common law rights which Shanahan had in housing plans and designs were extinguished when the plans and the structures were made public. Shanahan also asserted a count for unfair competition and unjust enrichment, just as plaintiff in the present is asserting unjust enrichment under *Seagren v. Smith*. This court found that there was no property right in Shanahan to support a count for unjust enrichment. The court stated at page 340:

"... In any event Civil Code section 983, subdivision (b), protects defendants, in view of the findings, from any liability for unjust enrichment under these circumstances. Also, under the common law decisions, by publishing their plans plaintiffs lost all rights to protection against the use or appropriation by another of such plans. After voluntary publication these plans were 'free as the air to common use.'"

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Adkins has no property rights in the present case to support recovery on any theory over which the state courts have jurisdiction including breach of contract and unjust enrichment.

The trial court's rulings and directed verdict which impose liability on "any products covered by Adkins' patent" even though the license agreement was terminated and of "no further force or effect" [pp. 3080, 3092] are void because the state court does not have jurisdiction or power to enforce United States Letters Patents apart from the license agreement.

IV.

There Is No Basis for Any Implied Obligation.

Plaintiff has asserted that in view of the issuance of plaintiff's patent in 1960 defendant had an implied obligation to pay royalties on many products which defendant sold after the agreement was terminated, and which plaintiff asserts are within the scope of the license agreement and the claims which issued in the patent [Clk. Tr. pp. 2313, 2323]. However, the agreement itself negates any implied obligations.

Plaintiff's statement of legal and factual contentions for the pretrial proceedings states with respect to the license agreement [Ex. 8]:

"Said agreement is clear and unambiguous and requires no reference to either prior documentation or negotiations, but requires construction only in accordance with settled principles and canons of construction." [Clk. Tr. p. 1407, lines 21-24].

Pages 31-35 of John S. Adkins' "Answering Brief to the 'Opening Brief for Lear Concerning the Directed Verdict and the Denial of Lear's Motion for Judgment Notwithstanding the Verdict, All With Respect to the 2156 Gyroscope.'"

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the unjust enrichment theory of *Seagren v. Smith* for the period after April 8, 1959 is wholly irrelevant on this appeal if the license agreement was never terminated, as the same result would pertain both for the 2156 gyro and the steel gyros.

A. Lear Could Not Exercise Paragraph 2(a) Termination Without Prior or Concurrent Cessation of Manufacture of Covered Gyros, and Its Purported Termination on April 8, 1959 Was Only a Breach of Contract,

In paragraph 2(a) of the license agreement Lear is given the right "on ninety days prior written notice to Adkins to terminate any one or more of the licenses herein granted." This paragraph, however, is silent on the question of under what circumstances Lear may exercise that right, and is also silent on Lear's duty to pay royalties on products manufactured after notice of termination.

Paragraphs 2(a), 3(g), 6, 8 and 10 all pertain to various rights of termination, and, consequently, must be read together in deciding whether Lear may validly exercise 2(a) termination while continuing to manufacture and sell the very same gyros, *O'Connor v. West Sacramento Co.* (1922), 189 Cal. 7, 11. When these paragraphs are considered together, the conclusion is inescapable that Lear may only terminate under paragraph 2(a) if prior thereto or concurrently therewith Lear ceases manufacture of all covered gyros, in which event Lear has ninety days in which to complete manufacture and sale of gyros in progress.

The obvious purpose of paragraph 2(a) was to permit Lear to terminate annual minimum royalty payments if Lear ceased manufacture of covered gyros, as under

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paragraph 3(g) Lear would have to pay substantial yearly minimum royalties for 17 years even if it did not manufacture as long as the license was in effect.

It is absurd to assume that Adkins was exchanging his right to a "mutually satisfactory royalty" under the first agreement of December 29, 1951 for \$500.00 upon execution of the license agreement (p. 2), which would be the only certain consideration if, in conjunction with the right not to manufacture at all (paragraph 3(g)), Lear also had the right to terminate and continue manufacture royalty-free under paragraph 2(a). There is not one indication in the license agreement that Lear could, by its own unilateral act, terminate its obligation to pay royalties under paragraph 2(a) while continuing to manufacture and sell covered gyros.

The *only* provision enabling Lear to terminate and manufacture without "further royalt[y] [payments]" is expressly covered in paragraph 6 in the event of adjudication of invalidity or non-issuance of "substantial claims".

Since Lear's only rights to terminate and thereafter manufacture royalty-free are expressly covered in paragraph 6, such rights are not to be read into paragraph 2(a). Paragraph 6 would be wholly redundant if Lear could for any reason and at any time terminate the license agreement under paragraph 2(a) and escape further payment of royalties.

Under paragraph 3(g) Adkins could terminate Lear's right to manufacture covered gyros if Lear was in breach by failing to make minimum royalty payments, and Lear thereafter had ninety days in which to complete manufacture and sale of gyros then in progress and is thereafter expressly prohibited from further manufacture.

It would be equally absurd to say that where Adkins can prevent further manufacture if Lear fails to pay minimum royalties, Lear can escape its obligation to pay both minimum *and* earned royalties by terminating under paragraph 2(a) and thereby also acquire the new right to manufacture free of any royalty at all. The 90-day grace period of paragraph 3(g) is solely for Lear's benefit. It must also be assumed that the 90-day grace period of paragraph 2(a) is also solely for Lear's benefit, since it can be of no benefit to Adkins in the absence of a duty to manufacture. Therefore, prior or concurrent cessation of manufacture arises in paragraph 2(a) by necessary implication to give effect to the 90-day grace period and prevent it from being meaningless.

Paragraph 11 gives Lear four options upon Adkins' leaving Lear's employ, three of which require payment of minimum royalties and one earned royalties only. If Lear could terminate under paragraph 2(a), continue to manufacture and pay no royalties at all, this would constitute a fifth option and would result in an absurdity, as obviously Lear would always exercise a paragraph 2(a) termination. In other words, Lear's construction of paragraph 2(a) makes paragraph 11 wholly useless.

In addition, implying a condition precedent of prior or concurrent cessation of manufacture into paragraph 2(a) is compelled by C.C. §1655 and §1656, whereunder provisions which are necessary to make an agreement reasonable and capable of being carried into effect are implied as a matter of law. Any interpretation which would allow Lear to terminate under paragraph 2(a) while continuing to manufacture the very same gyros royalty-free would be the most unreasonable construction of this paragraph that is conceivable. Clearly, Ad-

kins was not giving, and Lear could not reasonably understand that it was acquiring, the right to unilaterally end all royalty payments at any time and for any reason.

Pertinent canons of construction are contained in C.C. §1635, *et seq.* These rules of construction require that a contract be interpreted to give effect to the intention of the parties "as it existed at the time of contracting" (§1636); that the language employed, if clear and explicit, is controlling unless it results in an "absurdity" (§1638); that each clause is to be given meaning and used in interpreting every other clause (§1641), *Kohn v. Kohn* (1950), 95 Cal. App. 2d 708; that an interpretation which makes the agreement "reasonable" and "capable of being carried into effect" is required (§1643); and that any uncertainty is interpreted "most strongly" against the party who caused the uncertainty to exist (§1654), *Hunt v. United Bank and Trust Co.* (1930), 210 Cal. 108.

In applying these canons, "stipulations which are necessary to make a contract reasonable . . . are implied" (§1655) *as a matter of law*, and all provisions necessary to carry the agreement into effect are also implied (§1656) *as a matter of law*, *Brawley v. Crosby Research Foundation* (1946), 73 Cal. App. 2d 103.

Applying these canons of construction and implying stipulations which are necessary to make the contract reasonable does not make a new contract for the parties, as Lear asserts. Rather, it results in a construction of the contract in accordance with the parties' actual intent.

Lear argues, however, that because its obligation to cease manufacture if Adkins terminates is discussed in paragraph 3(g), the obligation to cease manufacture

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cannot be read as a condition precedent to its right to terminate under paragraph 2(a). The cases it cites for the proposition that where a particular obligation is discussed in one part of an agreement it is not read into another part are, however, distinguishable, since they hold only that additional obligations will not be imposed on the same party. Moreover, the rule is only an aid to construction and not an absolute to be applied when other canons of construction reach a more reasonable result.

Lastly, it should not be forgotten that Lear drafted the license agreement⁵⁵ and caused the uncertainty, if any, in paragraph 2(a) to exist.

B. Lear Could Not Exercise Paragraph 6 Termination Until After Final Patent Office Action, Which Did Not Occur Until January 5, 1960, and Its Purported Termination on April 8, 1959 Was Only a Breach of Contract.

Paragraph 6 of the license agreement provides, in material part, as follows:

"[In the event] the United States Patent Office refuses to issue a patent on the substantial claims [of the application attached as Exhibit B] or if such a patent so issued is subsequently held invalid . . . Lear at its option shall have the right forthwith to terminate the specific license so affected or to terminate this entire Agreement and no further royalties shall thereupon be payable under the license so terminated or under this Agreement if Lear shall have elected to terminate this Agreement in its entirety."

Obviously, the parties did not intend that Lear could incorrectly anticipate final Patent Office action and con-

**Pages 94-96 and 109 of Lear's "Respondent's and
Cross-Appellant's Opening Brief."**

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agraphs 2(a) and 6 thereof, Lear, Incorporated hereby exercises its rights and options to terminate the agreement and the licenses therein granted."

It is undisputed that defendant submitted this written notice to the plaintiff and that the plaintiff received the notice [Clk. Tr. p. 1127, lines 15-17]. This written notice complies exactly with the provisions of §2(a) and 6 of the license agreement of Ex. 8 concerning termination of the agreement. The termination provision of §2(a) is unequivocal and the only condition required is ninety days' written notice. This termination provision states:

"... Lear shall have the right on ninety days' prior written notice to Adkins, to terminate any one or more of the licenses herein granted."

**1. Defendant Terminated After Plaintiff Failed to
Perform Under the Agreement.**

Section 6 of the agreement gave defendant the right to forthwith terminate the agreement or any one of the licenses thereof in the event, *inter alia*, that the United States Patent Office refused to issue a patent on the substantial claims of plaintiff's patent application. After repeated refusals by the United States Patent Office to issue a patent on the substantial claims over a five-year period of time, defendant served the required notice and terminated the agreement also pursuant to §6. Section 6 [p. 11 of Ex. 8] of the agreement, as far as Exhibit B to the agreement or plaintiff's patent application Serial No. 410,237 is concerned, states that

"... in the event the U.S. Patent Office refuses to issue a patent on the substantial claims of the application attached to Exhibit 'B', or if such a patent so issued is subsequently held invalid ... then in

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any of such events Lear at its option shall have the right forthwith to terminate the specific license so affected or to terminate this entire Agreement and *no further royalties shall thereupon be payable* under the license so terminated or under this Agreement if Lear shall have elected to terminate this Agreement in its entirety." [Emphasis added.]

It is to be noted that the agreement does not require defendant to wait until final action by the United States Patent Office before serving notice of termination under §6 of the license agreement. The agreement itself does not require final action and final action is not required or implied by law. *Marvin v. Mills Alloys, Inc.* (1939), 31 Cal. App. 2d 549.

The §6 termination provision states that in the event the United States Patent Office refuses to issue a patent on the "substantial claims," defendant at its option shall have the right to forthwith terminate. The "substantial claims" are those that were in the patent application on September 15, 1955, or equivalents thereof, and the Patent Office refused to allow such claims [Ex. P].

Paragraph 17 of the license agreement [Ex. 8] states:

"It is hereby specifically agreed and understood by the parties that on the date of execution hereof the MA-1 compass Lear Model No. 5005, the Directional Steel Gyro Lear Model No. 2152, and the Vertical Steel Gyro Lear Model No. 2153, are the only products manufactured by Lear under the licenses herein granted, *which contain any of the inventions or claims* described and covered by the respective Exhibits under this Agreement." [Emphasis added.]

During the second week of the trial the Judge stated:

"In Paragraph 17 there was an application pending. It refers to the inventions of or claims described and covered by their respective exhibits under the agreement. . . . Well, I am going to hold that Paragraph 17 was composed in view of the claims, the inventions which were embodied in the exhibit attached to the agreement at that time. . . ." [p. 1066, lines 2-9].

A review of the file history [Ex. P] and the finally issued patent [Ex. 10] clearly shows that the claims that were in the patent application at the time the agreement was executed were never allowed, that no method claims were ever allowed, that the claims that were allowed were of a completely different type than those contemplated by the parties upon the execution of the agreement, and that the claims and even the description which forms the basis for the claims were changed so that additional matter was added over and above that which existed on September 15, 1955. Furthermore, there were no claims of any type allowed concerning bearing alignment methods on April 8, 1959, when Lear terminated the agreement and this was five years after plaintiff had filed his patent application and nearly four years after the execution of the license agreement. Thus, it is clear that Lear properly terminated the license agreement under §6 in that the U. S. Patent Office had refused to issue a patent on the substantial claims relating to bearing alignment. This refusal occurred first on March 21, 1957 [Ex. P, p. 44] and it was repeated on June 20, 1958 [Ex. P, p. 57].

§405, page 621; *Ellis Patent Assignments and Licenses*, Second Ed., §697, page 733, §770, page 779.

It is a recognized principle of law that when a license agreement provides a grant of a right to either manufacture, use, or sell a product incorporating a patented invention, the licensee is estopped to contest the validity of the licensed patent only as long as the licensee is operating under the license.

The Armstrong Company v. Shell Company of California (1929), 98 Cal. App. 769;

Automatic Radio Manufacturing Company v. Hazeltine Research, Inc. (1949), 339 U.S. 827, 70 S. Ct. 894, 94 L. Ed. 1312;

Del Riccio v. Photochart (1954), 124 Cal. App. 2d 301.

This is not only "the modern rule" as plaintiff likes to call it (Pltf. Op. Br. p. 78), but it is also the "old" rule as well. *Patent Assignments and Licenses* by Ridsdale Ellis (1936), §376, page 428. This rule was set out in the 1939 case of *The Armstrong Co. v. Shell Company of California*, *supra*, at 778 as follows:

"It is a well-recognized rule of law that a licensee under a patent right cannot dispute the validity of his licensor's patent."

This estoppel lasts only so long as the licensee operates under the license agreement. This estoppel arises not because of express terms in the agreement but because the licensee is using and enjoying the benefit and protection of the rights covered by the agreement and should not be permitted to reap the benefits of the agreement and at the same time contest the validity of the patents to show failure of consideration for the agreement.

Opinion of the District Court of Appeal.

In the District Court of Appeal of the State of California, Second Appellate District, Division Two.

John S. Adkins, Plaintiff, Appellant and Cross-Respondent, vs. Lear, Incorporated, Defendant, Respondent and Cross-Appellant. Civ. Nos. 28624, 29770, 30052, 30089.

Filed Aug. 8, 1966.

Appeals from judgment and orders of the Superior Court for Los Angeles County. Brodie Ahlport, Judge. Judgment n.o.v., reversed. Order denying defendant's motion for judgment n.o.v. in part, reversed. Order granting new trial, affirmed. Judgment as amended dismissing second cause of action, affirmed. Action remanded for new trial on issue of damages only. Appeals from order granting motion for judgment n.o.v. in part, and from order apportioning costs of audit dismissed.

Rosenfeld, Meyer & Susman, and Peter R. Cohen, for Appellant.

Christie, Parker & Halè, C. Russell Hale, Edwin L. Hartz, and Kenneth C. Newell, for Respondent.

This is an action for damages for breach of an agreement dated September 15, 1955, hereafter referred to as the license agreement, and for unjust enrichment (first cause of action) and, in the alternative for breach of an implied contract, misappropriation and unjust enrichment (second cause of action).

Plaintiff Adkins, under the license agreement, granted an exclusive license to defendant Lear, Incorporated, herein referred to as Lear, to manufacture

and sell "products and parts and components thereof (including gyros, gyro systems, gyro apparatus and gyro mechanisms) covered by or containing one or more of all the inventions and any patents issued or hereafter issued thereon," under the claims of Adkins' then pending application for a patent, upon payment of agreed royalties. It was understood by the parties that the word "claims" as used in the license agreement shall mean the claims of the then pending application for a patent "which have been or will be patentable by Adkins." The agreed royalties were to be paid only "[w]hile one or more of the licenses granted under this Agreement is in effect."¹

The case was tried to a jury on the first cause of action on Adkins' claim for damages with respect to five models of gyroscopes manufactured by Lear. As to one model, No. 2156, the court directed a verdict for Adkins. On the other four models, Nos. 2151, 2152, 2153 and 2171, here collectively referred to as the "steel" gyros, the jury returned a verdict in favor of Adkins. Judgment on the verdict on the first cause of action was entered on May 4, 1964. On July 2, 1964, the court (1) denied Lear's motion for judgment n.o.v. on model 2156; (2) granted the motion as to the other four models; and (3) granted Lear's motion for a new trial in the alternative as to all models. Judgment n.o.v. was entered accordingly on July 15, 1964.

¹Adkins in fact granted Lear three licenses in identical terms under the claims of a certain patent referred to as "Exhibit 'A'", and under the claims of certain patent applications referred to as "Exhibit 'B'" and "Exhibit 'C'". The only license involved here is that under the claims of "Exhibit 'B'", being the application for letters patent filed by Adkins on February 15, 1954, "and all patents issued or issuing thereon to Adkins with respect to the inventions disclosed or intended to be disclosed therein."

Civ. No. 28624 includes (1) Adkins' appeal from the judgment n.o.v. for Lear on the "steel" gyros and from the order granting Lear's motion for a new trial; (2) Lear's appeal from the judgment on the directed verdict as to model 2156, and from the denial of its motion for judgment n.o.v. on that model; and (3) Lear's appeal from the whole of the judgment entered May 4, 1964.

The judgment was amended December 30, 1964, dismissing Adkins' second cause of action pursuant to the mandate of this court in *Civ. No. 28603*.

Civ. No. 30089 includes Lear's renewed appeal as to items (2) and (3) in *Civ. No. 28624* (renoticed as a matter of precaution), and its appeal from the amendment of December 30, except as to the dismissal of the second cause of action.

Civ. No. 30052 is Adkins' appeal from the dismissal of his second cause of action by the judgment as amended December 30, 1964.

Civ. No. 29770 is Adkins' appeal from an order apportioning the cost of an independent audit during discovery proceedings.

Factual Background

Adkins is a mechanical engineer. Lear is a manufacturer of aircraft flight instruments, including gyroscopes, gyro systems, gyro apparatus and gyro mechanisms, with a research and development facility in Santa Monica, California, and a development and production facility in Grand Rapids, Michigan.

Adkins joined Lear in Santa Monica as an inventor in January 1952, following the execution of an agreement in December 1951 in which Adkins agreed

in substance to disclose and license to Lear all ideas, discoveries and inventions relating to gyroscopes, hereafter referred to as gyros, in return for a "mutually satisfactory royalty." Upon his employment Adkins went to work in Santa Monica developing gyros with higher precision than those then being manufactured by Lear which could be produced at a lower cost.

We are concerned here with the manufacture of gyroscopes as used in aircraft to tell the pilot the direction and attitude of the aircraft. Simply stated, the gyro maintains its fixed position in space and the movements of the aircraft around it are measured electronically and recorded on gauges. In all gyros in issue here there is a part called a rotor, driven electrically at high speed. The rotor is mounted in a "gimbal ring", sometimes called the inner gimbal ring or inner axis, which in turn is mounted on the outer gimbal ring or axis, the whole structure being mounted in a frame fixed to the aircraft. Each gimbal ring, when fully assembled, has two short axle ends 180° apart, called trunions, which lie on a common axis. Each trunion is inserted into a bearing element which is fixed in the gimbal assembled around it. Each bearing element consists of an inner and an outer race or ring and a plurality of balls between the two races. The most important factor in achieving gyro accuracy is accurate alignment of the pair of ball bearing elements on the opposite ends of the gimbals with each other. The faces of the bearing elements must be parallel with each other and the centers must be coaxial with each other in order to avoid friction and consequent drift of the gyro rotor from its stable position in space. Gyros which indicate the direction of the aircraft are known as directional

gyros, while those which indicate its pitch and roll are known as vertical gyros.

In the summer of 1952, after experimenting with and rejecting the use of self-aligning ball bearing elements or cups, Adkins conceived his invention of a means of holding a pair of bearing elements in pre-aligned coaxial and parallel relationship to each other and cementing them in place in oversize holes in the gimbal, and immediately communicated his invention to Lear. By September 1952 Adkins had completed two experimental models for vertical gyros with cemented in-bearing elements. At this time Lear was engaged in producing vertical gyros for the Air Force in a competition with other manufacturers. It was accordingly decided that Adkins would work on directional gyros and Lear, at Grand Rapids, would begin experimental work on improving its vertical gyros. Both, of course, were working on the production at low cost gyros having a high precision which would be more difficult for Lear's competition to obtain. Thereafter Adkins adapted his invention to the Navy requirements for a directional gyro system known as the MA-1 Compass System. The gyro in this system was designated as model 2156.

In its experiments at Grand Rapids, Lear first used a flanged cylindrical bearing element fitting into a cylindrical hole in the gimbal and a flat metal washer with two knife-like projections placed over the cylindrical portions of the bearing cup, referred to at the trial as a "tippy washer," which permitted the bearing element when inserted in the receiving hole to rock on the washer in two different planes. This was referred to at the trial as a self-aligning "knife edge" type of con-

struction. In the fall of 1953, Lear abandoned this type of construction in its models 2151 and 2152 and decided to adopt the construction used by Adkins in model 2156. The first such use of this method was in October 1953. The evidence shows that some time later the same method of construction was used by Lear in the construction of models 2151 and 2171. The only difference between model 2156 as developed by Adkins and the other models as developed by Lear in Michigan was in the shapes of the bearing elements and receiving holes and in the size of the flange used in the bearing element in model 2171.

As originally filed in February 1954, Adkins' application for a patent, described as Exhibit "B" in the agreement, and so far as material here, included the following claims: "7. A method of aligning bearings supporting a relatively movable element . . . ; 8. A method of aligning bearings in coaxial relationship and parallel planes for supporting a rotatable element in mounting, . . . ; 9. An alignable bearing structure for supporting an element movable with respect to another element, . . ." Examination of the file wrapper shows that these claims were rejected by the Patent Office September 18, 1954, "as being substantially fully met by the patent to Carlson." On March 7, 1955, Adkins cancelled claims 7 and 8, amended claim 9 in one particular, and submitted new claims 18 and 19 with reference to the "method of bearing alignment." This was the status of the application when the license agreement was executed.

It should be said here that, as a part of the consideration for the licenses granted to it, Lear reimbursed Adkins for patent costs already incurred by him and

agreed to pay all costs for preparation and prosecution of all applications for patents on inventions set forth and disclosed in Exhibit "B", provided Adkins secured Lear's prior written approval therefor. Adkins agreed to prosecute his applications and to "submit all such applications to Lear for approval prior to the filing thereof." It was further agreed that "Adkins shall immediately upon receipt by him, furnish to Lear a copy of each action taken by the U.S. Patent Office with respect to such applications and to consult with Lear before taking any action, with respect thereto, and also to notify Lear when a patent or patents have issued."

On March 21, 1957, the Patent Office notified Adkins that "Claims 9, 18, and 19 are rejected as being obviously fully met by the patent to Grenat." Thus it appears that all Adkins' claims had been rejected by the Patent Office when Lear wrote Adkins on September 10, 1957, that his application, Exhibit "B", "does not disclose any inventions utilized in any Lear equipment except the MA-1 system and certain components thereof [model 2156]. Specifically, we do not believe that any models of the so-called 'Steel Gyro' come within the scope of Exhibit 'B'. We have made a search of the U.S. Patent Office files and believe that the method of bearing alignment heretofore and currently used in assembling the Lear 'Steel' gyroscopes is not patentable."

In response to the Patent Office action of March 21, 1957, Adkins again amended his application on September 27, 1957, further amending claims 9, 18 and 19, and adding new claims 20 and 21, each on an "alignable bearing construction." A supplemental amendment, dated December 31, 1957, adding new claims 22

through 26, each on "an alignable bearing construction", was filed with the Patent Office January 13, 1958, shortly after Adkins terminated his employment with Lear. On January 20, 1958, the Patent Office rejected amended claims 9, 18 and 19 "as being fully met by Grenat," and rejected the new claims 20 through 26 "as being fully met by the patent to Sperry."

On December 22, 1958, Adkins filed a further amendment to claim 9 and submitted new claims 27 and 28 in place of claims 18 and 19, and added certain new material to the specifications. On March 4, 1959, Adkins cancelled his claims 9, 27 and 28 and substituted new claims 29 through 41, claims 29 through 36 being on "an apparatus for supporting bearings in aligned relationship." The application as thus amended was pending when Lear wrote Adkins on April 8, 1959, that it was "exercising its rights and options to terminate the agreement and the licenses therein granted." On July 21, 1959, the new claims 29 through 36 were allowed and renumbered by the Patent Office as claims 9 through 16, and a patent on those claims was issued January 5, 1960.

Adkins' complaint was filed in January 1960 shortly after the issuance of the patent. After extensive discovery and pretrial proceedings the case went to trial in 1964 on the first cause of action only.

*Appeals Relating to
the Judgment N.O.V.*

Adkins sought to recover damages for breach of the license agreement and for unjust enrichment after the purported termination of the agreement by Lear in April 1959, based primarily on claims 9, 13, 14 and 16 of his patent.

During the trial the court denied Lear's motion for a directed verdict, which was made on some twelve grounds, each of which was to the effect that all of Adkins' alleged causes of action "are void and unenforceable" for the reasons stated in the notice of motion. At the conclusion of a lengthy trial, the court on its own motion directed a verdict in favor of Adkins on the 2156 gyro as a part of MA-1 compass system, and it was stipulated that on that model Adkins was entitled to recover \$16,351.93 for the period from January 1, 1955 to May 31, 1963. The case then went to the jury on instructions to determine whether the patent was invalid in respect to the four "steel" gyros, whether the patent "covers and is infringed" by one or more of those gyros, and whether the license agreement had been breached by Lear and the damages suffered by Adkins. The jury returned a verdict for Adkins and judgment was entered on May 4, 1964, for \$904,474.49 which was the full amount of his claim with interest.

Lear moved for a judgment n.o.v. "upon the grounds stated in defendant's motion for a directed verdict and that there is no sufficient evidence substantially to support a verdict in favor of plaintiff." The court denied the motion as to model 2156, with this comment: "The court directed a verdict for plaintiff for \$16,351.93 as royalty under a license agreement for the use of plaintiff's bearing structure as described in patent no. 2-919-586. Defendant's liability for this amount rested upon its status as a licensee. Under the established rule it was estopped to deny the validity of its licensor's patent." The court granted the motion as to the "steel" gyros, holding as to these models that "the rule

of estoppel does not apply," that the patent is invalid, and that "since, as a matter of law, neither of defendant's devices could be the subject of a valid patent to anyone, it follows that plaintiff cannot claim them as equivalents under or as infringing his patent (even if valid)." Judgment was entered accordingly on July 15, 1964, and both Adkins and Lear appealed.

The overall question to be decided on the appeals from the judgment n.o.v. is whether the evidence was sufficient to support the verdict in favor of Adkins. A motion for a judgment n.o.v. may be granted by the trial court "only where, disregarding conflicting evidence on behalf of the defendants and giving to plaintiff's evidence all the value to which it is legally entitled, therein indulging in every legitimate inference which may be drawn from that evidence, the result is a determination that there is no evidence of sufficient substantiality to support a verdict in favor of the plaintiff." (*Reynolds v. Willson*, (1958) 51 Cal.2d 94, 99.) On a motion for a judgment notwithstanding the verdict in favor of defendants the trial court "is not permitted to weigh the evidence, and on an appeal from the judgment entered on the granting of such a motion, the appellate court must read the record in the light most advantageous to the plaintiff, resolve all conflicts in his favor, and give him the benefit of all reasonable inferences in support of the judgment." (*Quintal v. Laurel Grove Hospital*, 62 Cal.2d 154, 159.)

The Scope of the Bargain

The verdict of the jury was necessarily based on the implied finding that the license as granted to Lear extended to the patent issued to Adkins in January 1960, and that the gyros manufactured by Lear were covered

by that patent. A proper construction of the license agreement leads us to the conclusion that there is no substantial evidence to sustain this implied finding.

The parties are agreed that Adkins' right to recover under his first cause of action is based upon the license agreement. Adkins contends that under that agreement he is entitled to the payment of royalties for the use of his invention as defined in the claims of his application for a patent and in the claims of the patent itself. Lear contends that it did not get what it bargained for under the license agreement, in that the invention as there defined was not patentable, and that after the termination of the license agreement in April 1959 it was a stranger to the patent as issued several months later. It was stipulated at the trial that Lear continued to make all five gyros after it had terminated payment on all except model 2156 in September 1957 and after it terminated the license agreement in April 1958. There is no suggestion that the license agreement is ambiguous.

The construction of the license agreement is governed by state law. As the court said in *Farmland Irrigation Co. v. Dopplmaier*, 48 Cal.2d 208: "It has been established by a long line of cases moreover, that an action to set aside, specifically enforce, or recover royalties on a patent license contract is not an action arising under the patent laws of the United States for the purpose of determining the exclusive jurisdiction of the federal courts. [Citations] State courts have jurisdiction over such actions, and in the absence of diversity of citizenship it is exclusive of the federal courts." (P. 217.) "The plaintiff's cause of action arose under and was governed by the general common law of contracts. . . .

[T]he law governing the elements of the plaintiff's cause of action is state law—state law acting of its own force and not merely by incorporation into federal law." (P. 218.) (To the same effect see *Lear Siegler, Inc. v. Adkins*, 300 F. 2d 595, affirming an order staying proceedings in the U.S. District Court relating to the agreement and patent involved here.)

In our opinion the proper construction of the license agreement supports Lear's contentions. The license agreement before us was negotiated after Adkins had disclosed his invention to Lear as required by the agreement of December 29, 1951, and by its express terms cancelled and superseded that agreement. In the license agreement Adkins represented and warranted that "to the best of his knowledge and belief *he is the owner of the inventions* covering the substantial claims as disclosed or intended to be disclosed in the Application for U.S. Patent on gyroscopes, attached hereto and hereafter referred to as Exhibit 'B' and incorporated herein as a part hereof, which application was filed February 15, 1954, and is presently pending in the United States Patent Office and that there are no licenses or agreements outstanding which prevent him from granting unto Lear *an exclusive license respecting said inventions* and products embodying *said inventions*, in accordance with the provisions hereof, . . ." "[I]n consideration of the foregoing and \$500.00 in hand paid, . . . and of the covenants and conditions hereinafter contained," Adkins granted to Lear "(2) *an exclusive license under all the claims* of Exhibit 'B' . . . ; it is understood, however, *that whenever the word 'claims' is used in this paragraph it shall mean the claims in the respective Exhibits which have been patented or*

will be patentable by Adkins." Exhibit "B" is "deemed to refer to and include" Adkins' application for a patent filed February 15, 1954, "and all patents issuing thereon to Adkins with respect to the inventions disclosed or intended to be disclosed therein." An invention as used in the agreement is defined in 1(d) as: "The term 'said inventions' as used in this Agreement shall include . . . (2) all claims and inventions disclosed or intended to be disclosed in said Exhibit 'B' . . . but only to the extent that such claims or inventions mentioned in said Exhibits are patented or patentable by Adkins."

Paragraph 3(a) of the agreement relating to royalties provides that while the license is in effect, "Lear agrees to pay Adkins with respect to products incorporating *said inventions* [see definitions above] . . . royalties of $1\frac{1}{4}\%$ based on net sales prices . . . received by Lear for said products, *it being understood that said rate shall be paid only on products incorporating one or more or all of said inventions.*" (Emphasis added.) Under paragraph 3(g) "[u]nless this Agreement is sooner terminated as herein provided," Adkins was entitled to receive certain minimum royalties on account of "products manufactured and sold by Lear," provided the license as to Exhibit "B" "in force and effect, . . . (b) embodying the inventions disclosed or intended to be disclosed in Exhibit 'B'," as a credit in reduction of the royalty payments due Adkins under paragraph 3 for each year.

We think it is evident from the provisions of the license agreement that what Lear was interested in and willing to pay for was the right to use Adkins' invention, that is, the right to use what was new and con-

stituted progress over apparatus already known to the trade which were patentable by Adkins. It seems highly improbable that Lear would agree to pay royalties indefinitely on parts long known, and which until the time of the license it could have manufactured and sold royalty free. The provisions defining sums received from license sales provide in effect that a royalty would be due on sums received on sales of products incorporating Adkins' inventions to the extent only that the claims of his then pending application were patentable. The agreement to continue the payment of royalties is tied directly to the test of the patentability of the claims of his then pending application. (Cf. *Farmland Irrigation Co. v. Dopplmaier*, 48 Cal.2d 208, 224-225; and cf. *Eastman Oil Etc. Corp. v. Lane-Wells Co.*; 21 Cal.2d 872, holding that "the term royalty ordinarily envisages a duty to make and a corresponding right to the use of patented methods on machines.")

The question here is whether Adkins' inventions as described in the claims of his application were patentable. By repeatedly expressing this requirement in the license agreement, the parties intended that unless the invention was patentable under the laws of the United States, Lear would be under no continuing legal obligation to Adkins. Thus we are required to focus our attention "on the patentability of inventions under the standard of Art. I, § 8, ch. 8, of the Constitution and under the conditions prescribed by the laws of the United States," (*Graham v. John Deere Co.*, 383 U.S. 1, 15 L.Ed.2d 545,) rather than on the "validity" of the patent *per se*.

It is beside the point that when the license agreement was executed, the parties agreed that "the MA-1

compass Lear Model No. 5005 [incorporating gyro model 2156], the Directional Steel Gyro Lear Model No. 2152, and the Vertical Steel Gyro Lear Model No. 2153, are the only products manufactured by Lear under the licenses herein granted, which contain any of the inventions or claims described and covered by the respective Exhibits of this Agreement," and it is equally beside the point that the invention was later incorporated in Lear's models Nos. 2151 and 2157. At the most, Adkins had but one "invention" which he first disclosed to Lear in July 1952, and on which he later applied for a patent. Adkins' right under the license agreement to the continued payment of royalties was expressly conditioned upon the patentability of that invention and the claims of his application for a patent. If that invention as so claimed was not patentable, either as incorporated in model 2156 as developed by Adkins in Santa Monica or in the "steel" gyros in which it was used by Lear in Grand Rapids, Lear's continuing obligation to pay royalties thereon would come to an end.

The provisions of the license agreement just referred to must be read "in the light of the subject matter of the contract and the apparent intention of the parties." (*Eastman Oil Etc. Corp. v. Lane-Wells Co.*, 21 Cal.2d 872, 873.) Since the patentability of the invention could only be determined in the first instance by the Patent Office and ultimately by the courts (*Graham v. John Deere Co.*, 383 U.S. 1, 15 L.Ed.2d 545), neither the license agreement that certain products manufactured by Lear in September 1955 incorporated Adkins' inventions or claims described and covered by Exhibit "B", nor Lear's letter of September 1957 can be considered as an admission by Lear that Adkins' invention was patentable.

As we have seen, the license agreement here was entered into in consideration of the patentability of Adkins' "invention" and the claims described in Exhibit "B". In September 1957 Lear concluded that Adkins' patent application did not disclose any inventions utilized by any Lear equipment, and that the method of bearing alignment used by Lear in assembling the "steel" gyros is not patentable. This conclusion was obviously based on the Patent Office action of March 1957 rejecting Adkins' claims as they stood at the time the license agreement was executed, and fairly anticipated the Patent Office action of January 20, 1958, rejecting the claims as amended by Adkins in March 1957 and on January 13, 1958. The actions of the Patent Office in March 1957 and in January 1958 rejecting all claims then pending constituted "final adverse action by the Patent Office". Adkins recognized the finality of this action in March 1959 when he cancelled all his previous claims and submitted the new claims on which the patent was finally issued. The issuance of the patent in January 1960 did not revive the claims which had been rejected. "It is well established that the claims of a patent must be read and interpreted in the light of claims which had been rejected. . . . Claims which have been allowed cannot, by construction, be read to cover what has thus been eliminated from the patent. *Schriber-Schroth Co. v. Cleveland Trust Co.*, [311 U.S. 211], (rehearing denied 312 U.S. 654, 61 S.Ct. 235, 85 L.Ed. 132)." (*Oregon Saw Chain Corp. v. McCulloch Motors Corp.*, 323 F.2d 758, 768.) Furthermore, as the court said in *Oregon Saw Chain*, the patentee "cannot regain 'by recourse to the doctrine of equivalents' that which he, by strict construction of the claim, has disclaimed. The doctrine

of equivalents 'at most operates, by liberal construction, to secure to the inventor the full benefits, *not disclaimed*, of the claims allowed'. (*Exhibit Supply Co. v. Ace Corp.*, 1942, 315 U.S. 126 at 136-137, 62 S.Ct. 513, at 518, 86 L.Ed. 736. Emphasis added.)"

Here, in contrast with *Del Riccio v. Photochart*, 124 Cal.App.2d 301, 309-312, the patentability of Adkins' invention was the major, material consideration for the license agreement. When the Patent Office determined that that invention was not patentable "the heart of the contract at bar" failed, and upon giving notice to Adkins of its termination in April 1959, Lear was relieved of its obligations to Adkins under the license agreement after such Patent Office action.

Estoppel to Attack Validity of Patent

Adkins urgently contends that in this action Lear is estopped to attack the validity of his patent. He relies on the rule as stated in *Automatic Radio Mfg. Co. v. Hazeltine Research*, 339 U.S. 827, that "the licensee under a patent license agreement may not challenge the validity of the licensed patent in a suit for royalties due under the contract." He also relies on *Bowers Mfg. Co. v. All-Steel Equipment, Inc.*, 275 F.2d 809, and *Del Riccio v. Photochart*, 124 Cal.App.2d 301, 312, in which this rule was followed. This has always been the rule in California. (*Martin v. Pinney*, 163 Cal. 652, 654.)

We have concluded that there is no basis on which Adkins can invoke the doctrine of estoppel for the reason that the validity of the patent issued to Adkins in January 1960 is not in issue here.

Adkins' contention is necessarily based on the assumption that a patent was issued on the claims of the application described in the license agreement, and that the five gyros involved here were covered by his patent, and on his contention that the license agreement was not validly terminated by Lear. Adkins' assumption that the patent was issued on the claims of his application described in the license agreement is not warranted by the record. As we have seen, the claims of the application as they stood in September 1955 and as amended in March 1957 were all rejected by the Patent Office, and that the patent issued to Adkins in January 1960 was based entirely on the new claims filed by him in July 1959. So far as the rejected claims are concerned, the case thus comes within the rule that when an invention is not patentable, the patent laws preclude an invention from involving the doctrine of estoppel as a means of continuing, as against his license, the benefit of a non-existent monopoly, just as they preclude the licensee from estopping himself "from enjoying rights which it is the policy of the patent laws to free from all restrictions." (*Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 257, 90 L.Ed. 47, 52.) None of the cases relied on by Adkins is in point here for the reason that each of them involved a licensed patent.

Lear concedes that it would be estopped to contest the validity of any patent issued to Adkins on the claims of his application described in the license agreement so long as it continued to operate under that agreement. It contends, however, not only that no such patent was issued, but further that this estoppel no longer existed after it terminated the agreement in April 1959. It relies on the rule stated in *Stimpson*

Computing Scale Co. v. W. F. Stimpson Co., C.C.A. 7th, 104 F. 893, *The Armstrong Co. v. Shell Oil of California*, 98 Cal.App. 769, 779, and several other cases that after the termination of a license the parties are freed from the estoppel resting upon them, and that thereafter the licensee, in an action for royalties under the license agreement, may attack the validity of a patent issued to the former licensor to the same extent as a stranger might.

The exception relied on by Lear is clearly applicable here. As the court said in *Armstrong* (p. 779): "A licensee is estopped to show the invalidity of licensed patents as a defense to an action for royalties only so long as the relation of licensor and licensee continues and the licensee uses and enjoys the benefit and protection of the patents covered by the agreement. . . . A licensee, if the patents are in fact invalid, may, without waiting to be evicted, denounce and abandon the license, and after giving notice thereof to the licensor, may defend against an action to enforce the license or to recover royalties subsequently accruing, with the same freedom as may a stranger to the patent, and the licensor is remitted to his infringement suit."

On April 8, 1959, Lear gave written notice to Adkins that it thereby "exercises its rights and options to terminate the agreement and the licenses thereunder," referring particularly to paragraphs 2(a) and 6 of the agreement. Lear thus placed itself in the position of a stranger both to the then pending patent application as well and to the patent which was issued some nine months later on the new claims which were not made by Adkins until July 1959.

Adkins' contention that the license agreement was not effectively terminated by Lear's letter of April 8, 1959, is equally without merit. Under paragraph 2 of the agreement, Lear had "the right on ninety days' prior written notice to Adkins, to terminate any one or more of the [three] licenses herein granted," including the license under Exhibit "B". It is provided in paragraph 6, that "in the event the Patent Office refuses to issue a patent on the substantial claims of the application attached as Exhibit 'B', . . . then . . . Lear at its option shall have the right forthwith to terminate the specific license so affected or to terminate this entire Agreement and no further royalties shall thereupon be payable under the license so terminated or under this Agreement if Lear shall have elected to terminate this Agreement in its entirety."

It is apparent from the facts shown in the Patent Office file wrapper delineated above that as of April 8, 1959, the Patent Office had refused to issue a patent on any of the substantial claims of Adkins' application then pending and had, in fact, refused to issue a patent on any of those claims. Lear was thus well within its rights on that date in terminating both the license and the agreement in its entirety. The case is thus distinguishable from *Bowers Mfg. Co. v. All-Steel Equipment, Inc.*, 275 F.2d 809, which involved a licensed patent. There the licensee was held to its agreement because neither of the events set forth in the agreement permitting cancellation had occurred. When, as here, the license agreement contained no recital or clause admitting the patentability of Adkins' invention and no stipulation not to dispute or contest the patentability thereof, Lear, having ascertained that the invention

was not patentable under any of the substantial claims of the application, could refuse to be bound thereby and, upon termination and notice as provided in the license agreement, could defend against Adkins' action for royalties as freely as may a stranger. In such a case, "there is no continuing consideration for the agreement." (*The Armstrong Company v. Shell Company of California*, 98 Cal.App. 769, 779-780.)

The controlling issue here is whether Adkins obtained a patent on the relevant claims of his application which was the subject matter of the license agreement. The record shows that the Patent Office expressly refused to issue a patent on any of those claims even after they had been amended. The patent issued to Adkins in January 1960 based on his new claims filed after the termination of the license agreement was not a part of the subject matter of the license granted by that agreement. Consequently the validity of that patent is not in issue in this action to recover royalties payable as provided in the license agreement. It is thus unnecessary to consider whether the five gyros involved here are covered by the claims of that patent. On that issue Adkins is relegated to an action for infringement.

Unjust Enrichment

Adkins further contends that even though the license and the agreement were terminated by Lear's letter of April 8, 1959, Lear was still liable to him on the theory of an implied contract if it continued to manufacture the four "steel" gyros. This contention is based on *Seagren v. Smith*, 63 Cal.App.2d 733. There the licensee held a license to manufacture certain pumps invented by the licensor on which he had already received

a patent, and no question of infringement or of the patentability of the invention was involved. After the licensee cancelled the agreement the licensor continued to manufacture the same pumps it was theretofore manufacturing under the agreement. The court held that as to the pumps manufactured after the cancellation of the agreement, the licensee was liable to the licensor "upon the theory of implied contract based upon the well-recognized and settled principle that a person shall not be permitted to enrich himself at the expense of another. (17 C.J.S. pp. 322-323.) Clearly, the trial court had jurisdiction of that portion of appellant's cause of action which arose after the cancellation of the agreement, upon the theory of implied contract."

In our opinion, *Seagren v. Smith* is readily distinguishable from the case before us. Here, as we have seen, the license agreement was terminated because the Patent Office had refused to issue a patent on any of the substantial claims of the application. This being so, Lear could not thereafter be held liable to Adkins on the theory of unjust enrichment because it continued to use Adkins' unpatentable invention. (Cf. *The Armstrong Company v. Shell Company of California*, 98 Cal. App. 769.) We agree with Lear that when an article is unpatentable and therefore in the public domain, it may be made and sold by whomever chooses to do so, and that as a general rule the inventor cannot recover damages under state law because this would interfere with federal policy as found in the Constitution, Art. 1, sec. 8, ch. 8, and the implementing federal statutes. (*Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225; *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S.

234; *Cable Vision, Inc. v. KUTV, Inc.*, 335 F.2d 348, 351.) While Adkins may be entitled to protection of the invention for which he obtained his patent in an action for infringement, he is not entitled in this action to collect royalties for the use of the invention referred to in the license agreement after a patent on that invention under the claims of his application had been denied by the Patent Office. (*Marvin v. Mills Alloys, Inc.*, 31 Cal.App.2d 549; see also *The Armstrong Company v. Shell Company of California*, 98 Cal.App. 769, 779.)

It appears to us that the case here is to be determined by the rule stated in *Eclipse Bicycle Co. v. Farrow*, 199 U.S. 581, 50 L.Ed. 317, and *Saco-Lowell Shops v. Reynolds*, 141 F.2d 587.

The facts in *Eclipse Bicycle Co. v. Farrow* are strikingly similar to those before us. In that case a bill had been brought upon an agreement to recover royalties. The agreement, so far as pertinent here, recited that Farrow had invented certain improvements pertaining to the mechanism for coasting and braking bicycles, for which he had applied for patents, and that Eclipse Bicycle Co. desired to acquire Farrow's rights "to said inventions as described in the above identified applications, and any letters patent that may be issued thereon," and that Farrow thereby conveyed to the company all his right, title and interest in "the inventions in bicycles, as fully described and claimed in the applications above referred to," and in letters patent that may be issued thereon. The company agreed to pay royalties "on all the devices made or sold embodying the inventions referred to" and to that end to make returns of the number of devices sold. Finally it was covenanted that in case Farrow "for any reason

fails to procure letters patent of the United States for the improvements above referred to, the [company] shall be relieved from the payment of all royalties from and after the date of final adverse action of the Patent Office on the application or applications for patents for said improvements." The bill alleged that soon after the agreement was made, one Morrow, defendant's general manager, applied for a patent on a device in effect the same as Farrow's, that Morrow assigned a half interest therein to the company's president, and that the company began to manufacture and sell the Morrow device. A supplemental bill alleged that upon the sale of Farrow's interest, the company, which had power to do so, failed to prosecute Farrow's applications. As a consequence one of Farrow's applications was abandoned and the other was permitted by the company to lapse. The answer as summarized by the Court admitted the contract, but denied the plaintiff's case, charged him with fraud, and set up that Farrow's invention had been anticipated by another patent, "and that it was impossible to obtain a patent for it, and that, therefore, the defendant was not bound by the contract further."

The Supreme Court held that Farrow could recover on his contract. The real questions in the case, said the Court (199 U.S. at 586-587), are whether the devices involved "fall within the scope of the contract, and these questions depend more upon a careful construction of that instrument than upon nice discriminations between the patents that were or might have been issued. If either of the contrivances used embodies the invention described in Farrow's applications, then the defendant is bound to account for it by the

express terms of its covenant, unless the contract is at an end."

After noting that some of Farrow's claims had been allowed "and there was no such final adverse action of the Patent Office upon either application as a whole as to exonerate the defendant by the terms of which we have recited," the Court continued (199 U.S. at pp. 587-588): "We come back to the construction of the contract. The royalty is to be paid on the 'invention above referred to.' The use of the word 'invention' does not open the state of the prior art and allow the defendant to meet the plaintiff's claim by proving that he had invented nothing new. The royalty is to be paid on the invention described in the specified applications—that is to say, on the contrivances there described—unless and until there is final adverse action by the Patent Office. That is the measure of the defendant's self-protection. It could not have asked or been allowed more. . . . It had all Farrow's interests in its hands, and it took the risk of their worth, except as against what the Patent Office might do. It should be repeated that, so far as the company made any device embodying Farrow's invention, by the fair construction of its express covenant it was bound to account, whether the manufacture was ostensibly Farrow's or not, and he was not left merely to an action for such damages as he could prove."

Saco-Lowell Shops v. Reynolds, 141 F.2d 587, was also an appeal from a decree in a suit to recover royalties under a contract. The contract there licensed the manufacture of "an improved process of cotton roving frame," on which Reynolds as inventor had obtained patents. One question before the court was "whether certain model J roving frames manufactured by de-

fendant are subject to royalties under the licensing contract."

After holding that these frames were properly held by the trial court "to be covered by the patent and hence subject to the payment of royalties under the contract," the court said (141 F.2d at 596): "The liability of the defendant for royalties, however, is to be determined by the terms of the contract, not by technical considerations of patent law. If the J frames which defendant is manufacturing substantially embody the Reynolds invention, defendant is liable for royalties irrespective of the validity of the claims, so long as they have not been held to be invalid, and irrespective of whether or not certain features of the invention may be found in the prior art. Controlling in this aspect of the case is the decision in *Eclipse Bicycle Co. v. Farrow*, 199 U.S. 581, 586-588, 26 S.Ct. 150, 152, 50 L.Ed. 317."

The further comments of the court in *Saco-Lowell Shops* with reference to the confidential relationship between the parties are also pertinent here. "The liability of defendant here is not to be determined as upon a charge of patent infringement nor even as in the case of an ordinary licensee under contract for the payment of royalties, for the reason that the J frames upon which royalties are claimed embody not only the fundamental ideas embodied in the Reynolds invention but also a specific application of those ideas evolved by Reynolds himself and communicated to defendant because of the confidential relationship into which the parties had entered for the development of the invention. In other words, defendant is not an independent manufacturer, nor is it a mere licensee manufacturing

a machine obtained from an independent source. It is a licensee who was working with Reynolds in the joint enterprise of developing his 'machine for the market, and who brought out a machine based upon his ideas which he conceived and which he communicated in aid of the joint enterprise. There can be no question but that defendant is liable for royalties on the machines embodying Reynolds' idea so communicated, quite irrespective of patent coverage or the terms of the license contract. That there was a confidential relationship existing between defendant and Reynolds when they agreed to work together for the development and marketing of his invention is so clear as not to admit of argument. Cf. *Baker Oil Tools v. Burch*, 10 Cir., 71 F.2d 31, 37."

As to the measure of damages to be awarded in such cases the court said in *Saco-Lowell Shops*, 141 F.2d at 598, that the measure of recovery is to royalty provided in the license agreement.

The law of this state as to the liability of the licensee in such a case is to the same effect. In *Davis v. Kittle Mfg. Co.*, 134 Cal.App. 254, the court said at p. 262: "Appellant next contends that 'plaintiff cannot collect royalties on future inventions.' The rule appears to be otherwise. 'The license may be given before issuance of patent. . . .' (48 C.J., p. 264.) 'The inventor of an unpatented device may make a valid contract for its manufacture, use or sale. It is no objection to the validity of such a contract that any person may manufacture it until a patent is issued. . . . If, therefore, the defendant contracted to pay a royalty before patent was issued, the plaintiff is entitled to recover.' (*Hamilton v. Park McKay Co.*, 112 Mich.

138 [70 N.W. 436], citing numerous authorities.) This contention is without merit."

To sum the matter up, it appears to us that when the Patent Office refused to issue a patent "on the substantial claims of the application" there was an end to Lear's obligation under the license agreement, and that Lear was then well within its rights in terminating both the license and the agreement in its entirety in April 1959. The patent which was finally issued to Adkins in January 1960 was not a patent on the claims of Adkins' application as it stood when the license agreement was executed, or on the claims made by Adkins in September 1957, or on those made in December 1958 which were cancelled by Adkins in March 1959. Consequently the patent was not within the scope of the license and the question of its validity was not before the trial court. As the case stands, however, the termination of the license and the agreement did not relieve Lear of its entire obligation to Adkins.

Under the law as we find it, Lear is still liable to Adkins for royalties due under the license agreement from January 1, 1955, until it came to an end on April 8, 1959. This is in accord with paragraph 3(c) of the license agreement providing that Lear would account to Adkins quarterly on "the net sales prices received on all sales by it of products subject to royalty under the licenses herein granted which are then in effect during each quarter-annual period beginning January 1, 1955."

In view of our conclusions as to the law which must control our decision, it would serve no useful purpose to consider the numerous other points raised and ex-

tensively argued by both Adkins and Lear on their respective appeals relating to the judgment n.o.v.

By its verdict the jury awarded damages in the full amount claimed by Adkins for the period from January 1, 1955 to May 31, 1963. Under the rules discussed above, Adkins was entitled to royalties due to him under the license agreement on all five gyro models for the period during which that agreement was in force, that is, from January 1, 1955 to April 8, 1959, when the license agreement was terminated. There is no evidence sufficiently substantial to sustain the verdict for royalties for the period after April 8, 1959. It follows that in directing a verdict for Adkins as to gyro model 2156 for royalties for the longer period and in denying Lear's motion for judgment n.o.v. with respect thereto, the trial court was in error. Similarly, the court was in error in granting Lear's motion for judgment n.o.v. with respect to the four "steel" gyros, thereby denying all relief to Adkins with respect thereto. Accordingly the judgment n.o.v. must be reversed.

*Appeal from Order Granting A New Trial
in the Alternative*

Concurrent with its determination of Lear's motion for judgment n.o.v., the trial court granted Lear's motion for a new trial on each of four grounds assigned therefor, including "insufficiency of the evidence to justify the verdict, or that it is against law." In its ruling on this motion the court found "specifically that the evidence was insufficient to justify the verdict and that the verdict is against law, and grants a new trial on each of said grounds" and filed its written order accordingly, pursuant to Code Civ. Proc., § 657.

Adkins' first point on appeal from this order is that the trial court erred in holding that the damages awarded by the jury were not the result of passion or prejudice. We find no error in this determination. "To say that a verdict has been influenced by passion and prejudice is but another way of saying that the verdict exceeds any amount justified by the evidence." (*Zibbell v. Southern Pacific Co.*, 160 Cal. 237, 254; *Koyer v. McComber*, 12 Cal.2d 175, 182.) Similarly "[i]n passing upon a motion for a new trial based upon the insufficiency of the evidence, it is the exclusive province of the trial court to judge the credibility of the witnesses, determine the probative force of testimony, and weigh the evidence [citations] . . . It is only where it can be said as a matter of law that there is no substantial evidence to support a contrary judgment that an appellate court will reverse the order of the trial court." (*Brooks v. Metropolitan Life Ins. Co.*, 27 Cal.2d 305, 307.)

The parties are agreed that to the extent Lear is liable to Adkins under the license agreement, the award of damages must be based on paragraph 3 of the agreement. That paragraph provided that royalties would be computed on the net sales prices of Lear's products incorporating one or more of Adkins' inventions, including the price charged for "gyro assemblies" and "gyro systems" as those terms are defined in the agreement. Competent evidence was introduced by Adkins as to the amount of royalties claimed by Adkins under these provisions for the period from January 1, 1955 to May 31, 1963, as claimed by Adkins. It is significant that the computations of Adkins' accountant were based on Lear's answers to cer-

tain interrogatories in which Lear grouped its sales of gyros and of its gyro systems and gyro assemblies, sometimes referred to in the evidence and in the court's instructions as embracing gyro system signals and gyro assembly signals, and that these interrogatories in turn are based on Lear's responses to certain requests for admissions. As to model 2156 the parties stipulated with reference to the amount which would be due for the same period.

As we have pointed out above, the damages awarded by the jury were excessive in that they were not limited to the period from January 1, 1955 to April 8, 1959 when the license agreement was in force. For this reason, if for none other, the trial court was correct in granting the motion for a new trial on the ground that the "damages appearing to have been given under the influence of passion or prejudice" were excessive, and that "the evidence was insufficient to justify the verdict and that the verdict is against law."

Lear's contention that the damages were excessive is based wholly on the testimony of its employee, Vernon Burns. This contention is without merit. Burns' testimony as to what should be included in computing net sales was based on his interpretation of the agreement. In *Ellsworth v. Palmtag*, 168 Cal. 360, 363, it was held that where "questions relating to the contract were framed so that answers would reflect defendant's interpretation of the agreement, rather than the terms thereof, plaintiff's objections should have been sustained." When this part of Burns' testimony is disregarded, the remainder is consistent with the evidence produced by Adkins.

On its motion for a new trial Lear claimed that the court erred in giving certain instructions and in refusing to give certain other instructions; that it erred in refusing to submit well over a hundred special interrogatories to the jury; and that it erred in its rulings with respect to Adkins' use of a certain exhibit to illustrate his testimony and in failing to properly instruct the jury with respect thereto. All these matters related primarily to the question of the validity of the patent and its coverage of Adkins' invention. In view of our conclusion that the patent as issued was not within the scope of the agreement, and that the validity of the patent was not properly in issue before the trial court, there is no need to extend this opinion with a discussion of these matters.

There was no error in the court's refusal to admit in evidence the three agreements executed by Adkins on September 15, 1955, concurrently with the execution of the license agreement, copies of which were attached to Lear's answer. One of these agreements contained a release "to this date" of all claims by Adkins under his agreement of December 1951 including claims arising out of his employment. The documents were offered as being relevant and material to the issue of liability apart from the license agreement and after termination of that agreement. As we have pointed out, Lear is not liable to Adkins apart from the agreement or for any period of time after its termination.

In our opinion the order granting the new trial must be affirmed and the case remanded for a new trial solely on the issue of the royalties to which Adkins may be entitled for the period from January 1, 1955 to April 8, 1959 under the provisions of the license agreement.

*Lear's Cross-Appeal
from the Judgment*

By reason of our conclusions with respect to the necessity for a new trial on the issue of damages only, the issues raised by Lear's appeal from the judgment have become moot, and the appeal should be dismissed.

*Appeals re Dismissal
of Second Cause of Action*

Adkins' second cause of action, in which he repleads the principal allegations of his first cause of action, is for damages for misappropriation of his "idea and invention for precise alignment of gyroscope gimbal bearings utilizing cemented bearing-receiving elements" which he disclosed to Lear in 1952, and for breach of an implied contract and for unjust enrichment. In his trial brief and during the trial he waived all claims under the second cause of action "except for the invention which is the subject matter of Patent 2,919,586, or for the ideas, or discoveries thereof." During the trial Adkins conceded that his second cause of action had been pleaded in the alternative to the first. Accordingly, without requiring him to make an election, the second cause of action was held in abeyance until it could be determined whether "for some reason the contract fails to cover the invention which Mr. Adkins disclosed to Lear." Still later, although no formal ruling appears in the record, the court effectuated a dismissal of the second cause of action insofar as it had not been waived, by refusing to admit evidence in support of the unwaived allegations.

After the judgment n.o.v. had been entered the trial court denied Adkins' request to amend the judgment

"to indicate that the second cause of action was dismissed by the court," stating in the minute order: "Examination of the record reveals that the plaintiff duly waived in open court under the second cause of action: 1. Any and all claims for any ideas, discoveries, or inventions not covered by patent 2,919,586. 2. Any claim for punitive damages. Plaintiff recognized categorically that he was proceeding on one cause of action—an express contract and not an implied contract." In order that it could be determined on appeal from the judgment whether, as a matter of law, Adkins had waived the entire second cause of action, this court, on Adkins' petition for a writ of mandate in Civil No. 28603, held that "the judgment should be amended to show a disposition of the second cause of action." As issued, the writ ordered the trial court to enter an amendment to the judgment in the following terms: "At the outset of the trial, plaintiff John S. Adkins waived all ideas, discoveries and inventions under the second cause of action except for the idea, discovery and invention which is the subject matter of U.S. Patent No. 2,919,586. The Court then required plaintiff to elect between the first and second cause of action, and when plaintiff refused to do so, the Court then dismissed the second cause of action which, after the plaintiff's waiver, remained for the idea, discovery and invention which is the subject matter of U.S. Patent No. 2,919,586, and the same is hereby dismissed." The trial court complied with this mandate on December 30, 1964.

It is Adkins' position on this appeal that, unless the judgment n.o.v. and the order granting a new trial are reversed (in which event he will have recovered on

his primary cause of action), the judgment of dismissal must be reversed and remanded for trial on his second cause of action.

The amendment to the judgment of December 30, 1964, was not erroneous. Adkins' waivers effectively limited his second cause of action to a claim for damages for unjust enrichment by reason of Lear's alleged misappropriation of "the invention which is the subject matter of Patent 2,919,586, or for the ideas, or discoveries thereof." With respect to that invention Adkins' rights are measured exclusively by the patent and by the federal patent laws. To permit Adkins to claim protection of that invention under the common law or any law of this state would be to "give protection of a kind that clashes with the objective of the Federal patent laws." (*Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225; *Compco Corp. v. Day-Brite Lighting Inc.*, 376 U.S. 234.) It should also be noted that when, as here, a plaintiff relies upon a valid express contract his recovery must rest upon and be measured by its terms, and cannot recover upon the theory of an implied contract. (*Thacker v. American Foundry*, 78 Cal.App.2d 76; *Lemoge Electric v. County of San Mateo*, 46 Cal.2d 659.)

That part of the judgment as amended December 30, 1964, dismissing Adkins' second cause of action must be affirmed.

*Adkins' Appeal from
Order Apportioning Costs*

Adkins has appealed from an order made January 24, 1964, apportioning the costs of an audit of Lear's books (Civ. No. 29770).

The audit involved here was ordered by the court as an aid to Adkins' discovery proceedings designed to ascertain the number of sales of gyros, gyro assemblies and gyro systems manufactured and sold by Lear from January 1, 1955, to the date of Lear's answers to Adkins' interrogatories and the net sales price received by Lear. Lear's first answers to the interrogatories were filed in July 1963. The record reflects extended proceedings before the court, initiated in the main by Adkins, to compel Lear to furnish further information. These proceedings terminated in an order on September 20, 1963, for the audit which was modified after further proceedings on October 18. Under this order the court reserved the power to apportion the costs of the audit. After the audit was completed and further answers to Adkins' interrogatories had been filed the auditors submitted their bill for \$17,880. After further hearings the Court on January 24, 1964, made the order appealed from, ordering Adkins to pay 45% of the cost of the audit, and Lear to pay 55%.

On appeal Adkins claims that in apportioning these costs the trial court "abused its discretion, requiring a total reversal of its order." Lear says in reply that there was no abuse of discretion and that, in any event, the order is not appealable.

"The better view is that an order made for the purpose of furthering discovery proceedings, or granting sanctions for refusal to make discovery, is not appealable (*Huenergardt v. Huenergardt*, 218 Cal.App.2d 455, [32 Cal.Rptr. 714]; *Farnham v. Superior Court*, 188 Cal.App.2d 451, 455 [10 Cal.Rptr. 615])." (*Lund v. Superior Court*, 61 Cal.2d 698, 709.)

The appeal from the order apportioning costs of the audit must be dismissed.

In Civ. No. 28624, the judgment non obstante verdicto entered July 15, 1964, is reversed. That part of the minute order of July 2, 1964, granting defendant's motion for judgment n.o.v. with respect to the four "steel" gyros is not appealable, and the appeal therefrom is dismissed. The order of July 2, 1964, denying defendant's motion for judgment n.o.v. with respect to the model 2156 gyro is reversed. The order of July 2, 1964, granting defendant's motion for a new trial is affirmed. The appeal from the judgment entered May 4, 1964, is dismissed.

In Civ. Nos. 30052 and 30089, the judgment as amended December 30, 1964, dismissing plaintiff's second cause of action is affirmed.

In Civ. No. 29770, the appeal from order of January 24, 1964, apportioning the costs of an audit is dismissed.

The case is remanded to the trial court for a new trial solely on the issue of the damages to which plaintiff is entitled under the license agreement for the period from January 1, 1955 to April 8, 1959.

In Civ. No. 28624, Adkins shall recover all his costs on his appeal from the judgment notwithstanding the verdict and on Lear's appeals from the order denying in part its motion for a judgment notwithstanding the verdict and from the whole of the judgment entered May 4, 1964.

In Civ. No. 30052, Lear shall recover its costs on appeal.

In Civ. No. 30089, Adkins shall recover his costs on appeal.

In Civ. Nos. 29770 and 30052 Lear shall recover its costs on appeal.

McCoy, J.*

We concur.

Röth, P. J.

Herndon, J.

*Sitting pro tempore under assignment by the Chairman of the Judicial Council.

Modification of Opinion.

In the District Court of Appeal of the State of California, Second Appellate District, Division Two.

John S. Adkins, Plaintiff, Appellant and Cross-Respondent, vs. Lear, Incorporated, Defendant, Respondent and Cross-Appellant. Civ. Nos. 28624, 29770, 30052, 30089.

Filed Sept. 2, 1966.

THE COURT.

The opinion of the court filed August 8, 1966, is modified by deleting therefrom that part beginning in the second line from the bottom of page 23 of the ditto copy with the words "When, as here, the license agreement . . ." to and including the 9th line at the top of page 24, and inserting the following language in lieu thereof:

"When Lear terminated the license and the license agreement by its letter of April 8, 1959, the license with respect to Exhibit 'B' was non-exclusive by virtue of the provisions of paragraph 11 of the license agreement, Adkins having terminated his employment by Lear in January 1958."

The petitions for rehearing are denied.

Pages 42-46 of John S. Adkins' "Petition for Hearing" in the California Supreme Court.

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ties and its attempt to terminate the license agreement on April 8, 1959 was only a breach of contract which did not terminate the license agreement.

B. Lear Could Not Exercise Paragraph 2(a) Termination Without Prior or Concurrent Cessation of Manufacture of Gyros Embodying Adkins' Invention.

As indicated *supra*, the District Court of Appeal did not consider at all whether the license agreement was terminated by Lear's letter of April 8, 1959 under paragraph 2(a). That paragraph states, in the last sentence, that "Lear shall have the right, on 90 days' prior written notice, to terminate any one or more of the licenses herein granted," but is silent on Lear's right to manufacture after termination and also silent on Lear's obligation for royalties if it does so.

The obvious purpose of the paragraph 2(a) termination clause was to permit Lear to terminate annual minimum royalty payments required by paragraph 3(g) if Lear ceased manufacturing gyros using Adkins' invention. Under paragraph 3(g) Lear was obligated to pay Adkins minimum royalties of \$1,500.00 a year for 16 years (i.e., \$24,000.00), even if it ceased manufacture of gyros containing Adkins' invention, as long as the license was in effect. Paragraph 3(g) expressly states that minimum annual royalties are to be paid "provided the licenses are *in force and effect*," but paragraph 3(g) does not contain any provision for Lear to terminate their force or effect if Lear ceased manufacturing gyros using Adkins' invention. Obviously the "force and effect" phrase is a reference to paragraph 2(a), which contains Lear's only right to terminate the license (not the agreement) which is not expressly tied to the hap-

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pening of a condition.¹⁰ Thus, paragraphs 2(a) and 3(g) must be read together to mean that if Lear ceases manufacturing gyros utilizing Adkins' invention, it may then terminate annual minimum royalties required by paragraph 3(g) by exercising paragraph 2(a) termination.

Furthermore, in the absence of any duty to manufacture, which is expressly stated in paragraph 3(g), the 90-day period of paragraph 2(a) can only be for Lear's benefit, and must mean that like the 90-day period provided in paragraph 3(g) if Adkins terminates, Lear has 90 days in which to complete and sell gyros containing Adkins' invention then in the process of being manufactured. Any other construction renders the 90-day period totally meaningless. Thus, the 90-day clause of paragraph 2(a) is still another indication that paragraph 2(a) termination by Lear requires prior or concurrent cessation of manufacture of gyros containing Adkins' invention.

Civil Code Section 1643 states that "a contract must receive such an interpretation as will make it lawful, operative, definitive, reasonable and capable of being carried into effect, if it can be done without violating the intention of the parties." Civil Code Section 1638 states that the language of a contract is to govern its interpretation if that language is clear, explicit and does not involve an absurdity, *Kohn v. Kohn* (1950), 95 Cal. App. 2d 708. It would be absurd to assume that Adkins was exchanging his right to a "mutually satisfactory royalty" under the first agreement of December 29, 1951 for \$500.00 upon execution of the license agree-

¹⁰Paragraph 6, the only other termination clause, is expressly tied to either issuance of claims which are not substantial claims or an adjudication that the patent is invalid.

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ment, which would be the only certain consideration if, in conjunction with the right not to manufacture at all, Lear also had the right to terminate under paragraph 2(a) and continue to manufacture and sell gyros embodying Adkins' invention royalty-free. This conclusion is reinforced by paragraph 6 which gives Lear the right to manufacture without further payment of royalties only in the event the Patent Office refuses to issue a patent on the invention disclosed containing substantial claims, or in the event the patent is held invalid. Thus, since Lear's only right to manufacture royalty-free is expressly stated in paragraph 6, it is not to be read into paragraph 2(a), *County of Alameda v. Southern Pacific Co.* (1961), 55 Cal. 2d 479. Rather, paragraph 2(a) should be interpreted in accordance with the reasonable intention of the parties that in the event Lear ceased manufacturing gyros using Adkins' invention, it should thereafter be able to avoid the payment of minimum annual royalties.

In addition, paragraph 6 would be wholly redundant if Lear could terminate for any reason and at any time under paragraph 2(a) and thereby avoid further royalty payments. Similarly, paragraph 11 would be wholly redundant if Lear could terminate at any time and for any reason and thereby avoid further royalty payments. Under paragraph 11, Lear received four options upon Adkins' leaving Lear's employ, three of which required payment of increased minimum royalties and one of which required only payment of paragraph 3(g) minimum royalties and actual earned royalties. If Lear could terminate under paragraph 2(a) for no reason at all and pay no further royalties at all, this would constitute a fifth option, thus making paragraph 11 wholly redundant.

[45]

A further argument also supports Adkins' construction of paragraph 2(a). Under paragraph 3(g) Adkins could terminate Lear's right to manufacture gyros using Adkins' invention if Lear was in breach by failing to make minimum royalty payments. Under paragraph 10 Adkins could terminate the license agreement if Lear failed to pay earned royalties. Like paragraph 2, paragraph 10 is also silent on the subject of further manufacture after termination, and is also silent on Lear's obligation to pay royalties if it continued to manufacture gyros containing Adkins' invention after a paragraph 10 termination by Adkins. It would be absurd to say that Adkins could prevent further manufacture only if Lear failed to pay minimum royalties and not if Lear failed to pay earned royalties, and equally absurd to say that if Lear continued manufacture after paragraph 10 termination, it would not be liable for earned royalties. Rather, it is obvious that the parties so clearly understood that Lear's right to manufacture gyros using Adkins' invention would end upon termination in both the paragraph 2(a) and paragraph 10 situations, and that Lear would be liable for earned royalties if it thereafter continued manufacture, that they did not find it necessary to so state in those paragraphs, but stated it only in paragraph 3(g) for failure to pay minimum royalties where there might be some question.

Even apart from the foregoing construction arguments, paragraph 2(a) could not be read to permit Lear to terminate at any time and for no reason at all and thereafter continue to manufacture gyros using Adkins' invention royalty-free. Civil Code Sections 1655 and 1656 require that stipulations which are necessary to make a contract reasonable be implied therein, *Brawley v. Crosby Research Foundation* (1946), 73 Cal. App.

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2d 103. Any interpretation which would permit Lear to terminate under paragraph 2(a) at any time and for no reason and continue to manufacture gyros utilizing Adkins' invention royalty-free would be the most unreasonable construction that could be placed on the license agreement, as it is obvious that the intent of the parties was that Lear was to pay royalties to Adkins as long as it manufactured gyros containing his invention, subject only to its right to terminate under paragraph 6 if no substantial claims issued. Thus, implying in paragraph 2(a) the stipulation of prior or concurrent cessation of manufacture before exercise of the termination right stated therein makes the contract reasonable and accords with the parties' actual intent as garnered from the other provisions of the license agreement.

Finally, it should not be forgotten that Lear alone drafted the license agreement [Rep. Tr. p. 2500, lines 2-5] and caused the uncertainty in paragraph 2(a), if any, to exist, and which must, therefore, be resolved in Adkins' favor, Civil Code §1654; *Hunt v. United Bank and Trust Co.* (1930), 210 Cal. 108.

Thus, since Lear manufactured gyros containing Adkins' invention before April 8, 1959 and continued to do so after that date, Lear never had the right to effect and therefore never effected a paragraph 2(a) termination of the license agreement, and its letter of that date was only a breach of contract which did not terminate the license agreement.

Opinion of California Supreme Court.

In the Supreme Court of the State of California, in Bank.

John S. Adkins, Plaintiff and Appellant, v. Lear, Incorporated, Defendant and Appellant. L.A. 29204, 29205, 29206, 29207 (Consolidated Appeals).

Filed, Dec. 14, 1967.

John S. Adkins, an inventor and mechanical engineer, was engaged in the development and improvement of gyroscopes¹ for Lear, Incorporated, a manufacturer of gyroscopes and related mechanisms. Adkins brought this action against Lear, alleging in his first cause of action that prior to 1955 he had conceived certain inventions and made them available to Lear and that on September 15, 1955, he entered into a written agreement with Lear under the terms of which he granted Lear a license to use these inventions in products manufactured by it, in exchange for which Lear was to pay a stated percentage of the net sales price to Adkins as royalties on all products incorporating his inventions. It was averred that from September 10, 1957 onward, Lear had refused to pay royalties to Adkins on numerous products which it manufactured and sold and for which royalties were required to be paid under the license agreement.

The jury found in favor of Adkins and awarded him damages in the amount of \$904,474.49 for the period from January 1, 1955, to May 31, 1963.² A portion of this amount (\$16,351.93) was based on a verdict

¹Hereinafter sometimes referred to as gyros.

²The parties stipulated that this was the period of time involved for the purpose of determining the amount of damages.

directed by the trial court as to a product manufactured by Lear and designated as the 2156 gyro. A judgment on the jury's verdict was entered on May 4, 1964. Thereafter, Lear moved for judgment notwithstanding the verdict or, in the alternative, a new trial.³ (Code Civ. Proc., § 629.)⁴ The trial court granted the motion for judgment notwithstanding the verdict, except as to the 2156 gyro, and it granted the motion for a new trial in the alternative as to all products involved in the action. Multiple appeals have been taken; that which involves the primary matters at issue between the parties, numbered L.A. 29204, will be discussed first.⁵

L.A. 29204

The license agreement contained two provisions permitting its termination by Lear, and Lear purported to exercise its right to terminate under these provisions by a letter addressed to Adkins dated April 8, 1959. Reduced to its simplest terms, the fundamental questions we are called upon to decide are whether the agreement was validly terminated by Lear and (except as to the

³The alternative form of motion was abolished by amendment of section 629 before the trial of the present case commenced in 1964. (Stats. 1961, ch. 604, p. 1752.) However, the provisions of the section with respect to the review of judgments notwithstanding the verdict and orders for a new trial remained substantially the same, with the exception that the denial of a motion for judgment notwithstanding the verdict was made reviewable on appeal as a matter of right where the motion for a new trial was granted.

⁴This discussion involves: (1) Adkins' appeal from the judgment notwithstanding the verdict insofar as it was favorable to Lear and from the order granting the motion for a new trial; (2) Lear's appeal from the judgment on the directed verdict as to the 2156 gyro and from the court's denial of its motion for judgment notwithstanding the verdict as to that product; and (3) Lear's appeal from the whole of the judgment entered on May 4, 1964, on the jury's verdict in favor of Adkins.

2156 gyro) whether there is substantial evidence in support of Lear's claim that its products did not incorporate Adkins' invention. We determine that under a proper construction of the agreement Lear did not effect a valid termination and that not only is there no substantial evidence to support a determination that Lear did not use Adkins' invention in its products but that the record compels the conclusion that Lear did incorporate Adkins' invention in the instruments manufactured by it. The 2156 gyro will be discussed separately.

Before setting forth the facts, it may be helpful to summarize some fundamental principles and procedures relating to the instant case. The federal courts have exclusive jurisdiction over actions arising under patent laws (28 U.S.C.A. § 1338) but where a plaintiff seeks to enforce a patent licensing agreement the action "is not a suit under the patent laws of the United States and cannot be maintained in a federal court as such." (*Luckett v. Delpark* (1926) 270 U.S. 496, 502, 510; *Farmland Irrigation Co. v. Dopplmaier* (1957) 48 Cal.2d 208, 217.)⁵ Where such an action arises in a state court, the court may pass upon the meaning, scope, validity or infringement of the patent. (*Lear, Siegler, Inc. v. Adkins* (9th Cir. 1964) 330 F.2d 595, 600.)

⁵After the present suit was filed by Adkins but before the trial was held, Lear filed an action for declaratory relief in the United States District Court for the Southern District of California, alleging that Adkins' patent was invalid and that in any event the gyros manufactured by it did not infringe the patent. The federal court granted a stay until final adjudication of the present action. (*Lear Siegler, Inc. v. Adkins* (9th Cir. 1964) 330 F.2d 595.)

A patent is, of course, presumed to be valid until the presumption has been overcome by convincing evidence.⁶ Ordinarily, a party will attempt to demonstrate the invalidity of a patent by showing that it has been anticipated by the prior art or that it is obvious or without utility. However, one of the oldest doctrines in the field of patent law establishes that so long as a licensee is operating under a license agreement he is estopped to deny the validity of his licensor's patent in a suit for royalties under the agreement. The theory underlying this doctrine is that a licensee should not be permitted to enjoy the benefit afforded by the agreement while simultaneously urging that the patent which forms the basis of the agreement is void. (See 4 Walker on Patents (Deller 2d ed. 1965) p. 607.) This doctrine does not prevent one who is not a licensee from challenging the patent's validity.

The license agreement in the present case was, insofar as is relevant here, based not on an existing patent issued to Adkins but on his application for a patent which the parties believed would eventuate in the issuance of a patent.

A patent application generally consists of a drawing of the invention, the specifications, and the claims.⁷ The specifications are a description of the invention, the manner in which it is constructed, and the objects it is intended to achieve. They ordinarily include an introductory clause identifying the field in which the invention is made, a recitation of the advantages of the in-

⁶The principles of patent law summarized here may, unless otherwise noted, be found in Toulmin, Handbook of Patents (2d ed. 1954) chs. III, IV, V.

⁷There are additional formal requirements such as the oath of the inventor; a drawing is not required in every case.

vention and the state of the prior art, a brief description of the drawings and its parts, and, in the case of a machine, the manner in which it operates.

The claims follow the specifications. The claims must point out the subject matter which the applicant regards as his invention, and they are "the real measure of the invention." The drafting of claims is a highly specialized and difficult undertaking. The practice is to include both very broad claims and claims of a more restricted type. Frequently, an applicant will state his claims as broadly as is feasible in order to obtain as wide a monopoly as he can, gradually narrowing them to precisely describe his invention as the broader claims are rejected. (See 2 Walker on Patents (Deller ed. 1937) p. 770.) The subject matter of the claims may describe a machine or apparatus designed to perform some function, sometimes called an "apparatus claim," or a method or process of achieving a particular result independent of the machine which produces it, sometimes called a "method claim."

The prosecution of the application before the United States Patent Office will, except in very unusual cases, consist of at least one rejection of some or all of the claims of the application on the ground that a search has indicated they have been anticipated by prior inventions, and the subsequent amendment of the claims or specifications by the inventor. (See Seidel, What the General Practitioner Should Know About Patent Law and Practice (1956) A.L.I. p. 60.) He may then file an amendment which will alter the prior claims, cancel them, or add new claims. However, he may not enlarge the disclosure of the application as initially filed by adding new matter in an amendment. (35 U.S.C.A. §132.)

The issuance of a patent necessarily means that the Patent Office did not consider the amendment to constitute new matter in violation of the patent laws, and its determination in this regard is entitled to special weight. (*Helm Products v. Lake Shore Manufacturing Co.* (7th Cir. 1955) 227 F.2d 677, 679.) The process of rejection and amendment continues until either allowance or final rejection of the claims. A rejection is presumably designated as final if the examiner concludes that there is little likelihood that the application can be amended in such a manner that the issuance of a patent would be justified. This procedure of rejection and amendment is so commonplace that one authority has stated that most patent attorneys view with some misgivings those rare instances in which an application is allowed without amendment because it raises the possibility that the applicant has failed to state his claims as broadly as he could have and that a still broader claim might have been allowed, defining the invention (and thus the protection afforded by the patent) in a manner broader and more advantageous to the applicant. (Seidel, *op. cit. supra*, p. 48.)

An application may not claim more than one distinct invention, and a patent may be issued for one invention only. If the examiner at the Patent Office discovers that more than one invention is disclosed by an application he will require a "division," i.e., the applicant must limit his claims in the application to only one of the inventions but may file a separate application for each of the other inventions disclosed by the original application. It also happens that, after filing an application, the inventor may discover improvements which involve additional subject matter over the original disclosure

and which cannot be added by amendment because they constitute new matter. He may then file another application, called a "continuation application" in which he may claim both the disclosure of the original application and the new improvements.

If the applicant is satisfied with the claims which have been allowed he may cancel those which have been finally rejected. If he is dissatisfied with the final rejection he may take an appeal to the Board of Appeals, or, in certain limited circumstances, may attempt another amendment. (37 C.F.R. § 1.116.) At the time of the prosecution of the application involved in the present case, the average patent application had a pendency of somewhat over three years and was acted upon by the Patent Office from two to four times. (Seidel, *op.cit.* supra, p. 61.)

On December 29, 1951, Adkins and Lear entered into an agreement providing that Adkins would supervise the fabrication of vertical gyroscopes for Lear, that all new discoveries, ideas and inventions relating to such gyroscopes would become the property of Adkins, and that he would license Lear to manufacture the instruments on a mutually satisfactory royalty basis. The agreement also provided that the physical instruments fabricated would be the property of Lear.⁸ A few days later, Adkins commenced employment with Lear in its Santa Monica plant and began to conduct various experiments aimed at improving the accuracy and lowering the cost of manufacturing these instruments.

Gyroscopes are used in aircraft to indicate to the pilot the direction and attitude of the airplane. A vertical

⁸The 1951 agreement was attached to and made a part of the complaint..

gyro indicates the pitch and roll of the aircraft and a directional gyro indicates the aircraft's direction. The gyro seeks to maintain its fixed position in space, and the movements of the aircraft are measured electronically by the gyro and recorded on gauges. The essential, unique element of a gyro is a rotor, a heavy disc, which, when it is electrically driven at high speed, seeks to maintain its attitude in space.

In all cases the rotor is suspended by its axis, the ends of which are mounted in a ring, known as a gimbal. On some occasions the gimbal ring is itself suspended in a second ring, in which event the rings are known as the inner and outer gimbal rings and axes. The entire structure is mounted through the outer gimbal ring in a frame fixed to the aircraft or other craft served by the gyro. Each gimbal ring is provided with two short pins or axle ends called trunnions, which project outward from the circumference of the ring directly opposite each other. They lie on a common axis and are inserted into a bearing element which, in the case of the inner gimbal, is fixed to the inner circumference of the outer gimbal ring and, in the case of the outer gimbal, to a supporting frame. There is, accordingly, one pair of bearings in the outer gimbal for the inner gimbal, and one pair of bearings in the frame for the outer gimbal. The bearings are of the ball-bearing type, each consisting of an inner and outer race or ring with a number of balls between the two rings.

Among the most important factors in achieving accuracy in a gyro is alignment on the same axis of the pair of trunnions on the opposite sides of the gimbal, and the alignment in parallel planes of the faces of the

bearing elements. Accuracy in these coaxial and parallel alignments reduces friction and the exertion of undesirable forces which cause the gyro rotor to drift from its desired stable position in space, which in turn results in inaccurate recordations. In all gyros here in issue, the bearings are fixed in place, either directly to the next outer gimbal or frame, or to intermediate bearing cups affixed to the outer gimbal or frame.

Adkins' invention and the original claims related thereto involved both a mechanism or apparatus which fixed and held each pair of bearings in coaxial and parallel alignment, as explained above, and a method by which pairs of bearings could be positioned in coaxial and parallel alignment. In subsequent amendments the method claims were eliminated. When Adkins was first employed by Lear its practice was to bore, tap and ream a pair of coaxial holes directly opposite each other on the gimbal ring or frame which supports the outer ring. The bearings were then fitted into the seats formed by these holes. In order that alignment within acceptable tolerances could be achieved by this method, precision work by skilled machinists was required and there was a high incidence of rejects.

Adkins' apparatus for alignment, in its simplest form, consists of a pair of bearing cups mounted in oppositely placed receiving holes in the gimbal by use of a mandrel. A mandrel, in this instance, is a finely tooled rod or shaft, and is used by Adkins only as an assembly tool. Its cylindrical circumference is such that a bearing cup will fit snugly over each end of the mandrel. The mandrel, with cups firmly in place, is then inserted within the gimbal. In this instance the gimbal is not a ring but a hollow sphere which is made

in two halves, capable of being joined to form the sphere. There is a receiving hole, designed to receive a bearing cup at the bell top of each half sphere. The mandrel, with cups fitted, is first inserted within a half sphere by placing a cupped end of the mandrel into the receiving hole. The other half sphere is then placed over the assembly, so that the opposite cupped end of the mandrel fits into the receiving hole in that half sphere. The mandrel is of such length that when the half spheres are joined the cups project into the receiving holes. These holes are oversize, that is, the cups do not fit snugly into the holes but are allowed to freely position themselves. When the gimbal sphere is in the assembled position, the cups are cemented into the precise position as aligned by the mandrel. As the mandrel is machined to the precise dimensions of the rotor shaft or trunnions of the inner gimbal, as the case may be, the cups will receive the shaft or trunnions in what Adkins claims to be greatly improved alignment. Moreover, aside from the mandrel, which is a reusable tool, and the inner surfaces of the cups which are machined to receive the pair of bearings, no precision machine work is required and production costs are thus substantially reduced. After the cups have been firmly fixed in place, the sphere is disassembled, the mandrel removed, the rotor or inner gimbal is installed, and the sphere reassembled.

At the same time that Adkins was engaged in developing his invention, Lear was experimenting in its Grand Rapids, Michigan, plant with a number of other devices to achieve gyro accuracy. Lear claims that it developed the devices used in its models 2151, 2152, 2153 and 2171 independently of Adkins and that these

models do not incorporate any of Adkins' inventions. Adkins disagrees. These models will hereafter be collectively referred to as the "steel gyros" and will be discussed more fully in the portion of this opinion devoted to the question whether Lear utilized Adkins' invention in its products.

On February 24, 1954, Adkins filed an application for a patent in the United States Patent Office relating to his invention. It contained, *inter alia*, several claims relating to bearing alignment. Claims 7 and 8 related to a *method* of aligning bearings, and Claim 9 was denominated an alignable bearing structure for supporting an element movable with respect to another element. These claims were rejected by the Patent Office on September 8, 1954, as being fully met by a previous patent issued to one Carlson. Thereafter, on March 7, 1955, Adkins filed Amendment A to his application. This amendment canceled Claims 7 and 8 and replaced them with Claims 18 and 19, which also related to a method of bearing alignment. Three words were added to Claim 9.

This was the condition of the application when the license agreement was executed on September 15, 1955. Several years of negotiation preceded the consummation of this agreement, and the parties were represented by counsel in these negotiations.

The license agreement expressly provided that it superseded and canceled all prior agreements between

*The parties disagree as to the correct terminology applicable to this group of products. Lear claims they should have been designated as "Michigan gyros" because they were developed by it at the Michigan plant. Since the agreement refers to these models as steel gyros and this appears to be the more neutral term, we shall adopt this designation.

the parties, including the one executed on December 29, 1951. Adkins represented in the agreement that he was the owner of the inventions disclosed or intended to be disclosed in the application, which was attached and referred to as Exhibit B. He granted to Lear an exclusive license "under all the claims of . . . Exhibit 'B' . . . and any patents issued . . . thereon." The definition of the word "claims" was limited to those claims which were patented or patentable. Consideration in the amount of \$500 was acknowledged, and it was provided further that while the licenses were in effect a state royalty would be paid on products incorporating Adkins' inventions and that, in any event, a minimum of \$500 a year would be payable as royalties.¹⁰

Two provisions permitted Lear to terminate the agreement. One was contained in paragraph 2(a) and provided: "Lear shall have the right on ninety days' prior written notice to Adkins, to terminate any one or more of the licenses herein granted." The other, set forth in paragraph 6 of the agreement, stated, "In the event that . . . the U. S. Patent Office refuses to issue a patent on the substantial claims of the application attached as Exhibit 'B', or if such a patent so issued is subsequently held invalid . . . Lear at its option shall have the right forthwith to terminate the specific license so affected or to terminate this entire Agreement and no further royalties shall thereupon be payable under the license so terminated or under this Agreement if Lear shall have elected to terminate this Agreement in its entirety."

¹⁰The agreement also provided that Lear would reimburse Adkins for \$540 in patent costs already incurred by him and would pay future costs for the prosecution of the application.

On March 21, 1957, the Patent Office rejected Claims 9, 18 and 19 on the ground that they had been fully met by a patent granted to one Grenat. Before Adkins filed any amendment in an attempt to meet this objection, Lear wrote him on September 10, 1957, that it had reviewed his patent application and concluded it did not disclose any inventions utilized in any Lear equipment except the 2156 gyro and certain components thereof, that the steel gyros manufactured by it did not come within the scope of the application, and that Lear had made a search of the Patent Office files and believed the method of bearing alignment used in assembling the steel gyros was not patentable. Lear also informed Adkins that it would no longer pay royalties on the steel gyros but would continue to do so on the 2156 gyro. Adkins protested this action and on February 1, 1957, he resigned from Lear's employ because of its refusal to continue the payment of royalties on the steel gyros.

Thereafter, Adkins again amended Claims 9, 18 and 19 in an attempt to meet the objections of the Patent Office relating to the Grenat patent. These claims were also disallowed and, after another amendment of the application but before any action by the Patent Office on the amendment, Lear wrote Adkins on April 8, 1959, that it was exercising its right to terminate the license agreement under paragraphs 2(a) and 6. Royalty payments on the 2156 gyro were also discontinued. Subsequently, Adkins canceled the claims in his application going to a *method* of aligning bearings and substituted therefor a series of claims referring to an *ap-*

paratus for support bearings.¹¹ These apparatus claims were allowed by the Patent Office and letters patent issued thereon on January 5, 1960. On the same date, Adkins filed the present action. Lear stipulated that it manufactured and sold the gyros in issue both before and after its letter of termination of April 8, 1959.

In summary, a history of the prosecution of Adkins' patent application, after the license agreement was executed, reveals that Lear refused to pay royalties on the steel gyros after one rejection of Adkins' claims by the Patent Office, and it notified Adkins that the agreement was terminated after a second rejection at a time when the claims still involved a method of aligning bearings.

The trial of the action occupied many weeks, and voluminous testimony was introduced by both parties. The trial court held that as a matter of law Lear had terminated the license agreement insofar as the steel

¹¹The history of the prosecution of the patent application shows the following: On September 22, 1957, Adkins filed Amendment B, amending Claims 9, 18 and 19, but only in minor respects, for the purpose of avoiding the ~~base~~ of the Grenat patent. In a supplemental amendment before Patent Office action (Amendment C), he added Claims 22 through 27, which related to an alignable bearing structure. These claims were rejected on June 20, 1958, the first group as still not meeting the objections relating to the Grenat patent and the second as being anticipated by a patent to Sperry. On December 22, 1958, Adkins filed Amendment D, this time adding some material to the specifications, amending Claim 9, and substituting for Claims 18 and 19, claims 27 and 28, the latter two claims still relating to a method for aligning bearings. The April 8, 1959, letter of termination was sent prior to any action by the Patent Office on this amendment. A few weeks later Adkins canceled the method claims and by Amendment E substituted the apparatus claims on which he was finally granted a patent.

gyros were concerned,¹² Adkins had urged at the trial that even if the agreement was terminated Lear would be liable for damages under the theory of unjust enrichment set forth in *Seagren v. Smith* (1944) 63 Cal.App.2d 733.¹³ The court submitted to the jury for determination whether, as to the steel gyros, Adkins' patent was valid and whether Lear used the invention. The jury deliberated for eight days, and its verdict in favor of Adkins implied that it had determined both that the patent was valid and that Lear had utilized Adkins' invention in its products. Lear's motion for judgment notwithstanding the verdict and for a new trial in the alternative was based on numerous grounds, including the asserted invalidity of the patent and non-coverage.

The trial court, in granting the motion for judgment notwithstanding the verdict as to the steel gyros, wrote

¹²Lear insists that Adkins conceded at the trial that the license agreement had been terminated as a matter of law. There is no merit in this contention. Lear relies on certain statements made by Adkins' attorney to the trial court in chambers and on the fact that Adkins submitted an instruction, given by the trial court, stating that Lear had terminated the agreement by its letter of April 8, 1959. However, a reading of the record indicates that Adkins took the position early in the trial that the April 8 letter did not effect a valid termination and that it was only after the trial court had ruled as a matter of law that the agreement had been terminated that Adkins, in discussions with the trial judge, assumed this to be the case. The instruction stating that the agreement had been terminated was proposed by Adkins only as an alternative in the event the court refused to give another instruction requested by him stating that the letter of April 8, 1959, was wholly ineffective to terminate the agreement.

¹³In the *Seagren* case it was held that although a licensing agreement was canceled by the licensee, the latter was nevertheless liable for the payment of royalties thereafter upon the theory of an implied contract, based on the principle that a person shall not be permitted to enrich himself unjustly at the expense of another.

an opinion in which it held that Adkins' patent was invalid as a matter of law. The court analyzed Adkins' invention and the steel gyros manufactured by Lear and compared them with the prior art. The holding of invalidity was based on the ground that Adkins' device did not constitute an invention but was merely an aggregation of old parts and elements performing no new or different function. Although the court purported to do so, it did not decide whether Lear utilized Adkins' device.¹⁴ The motion for new trial was granted on the grounds of irregularity of the proceedings, excessive damages, errors of law occurring at the trial, insufficiency of the evidence to justify the verdict, and that it was against the law. (See Code Civ. Proc., § 657.)

Under the doctrine of licensee estoppel, Lear would be prohibited from challenging the validity of Adkins' patent if the agreement had not been validly terminated. Where a license agreement specifies the conditions under which termination may occur, those conditions must be satisfied in order to effect a valid termination, (Thomson Spot Welder Co. v. Oldberg Mfg. Co. (Mich. 1932) 240 N.W. 93, 94; see Ellis, Patent Licenses (3d ed. 1958) pp. 365-366; 69 C.J.S. p. 785.) Here, the contract provided that it would continue in force until the patent relating to the subject matter of the agreement expired, unless sooner terminated pur-

¹⁴After holding Adkins patent invalid the court stated that it was desirable to dispose of the question of infringement by Lear. However, the opinion merely states that the device utilized by Lear in its steel gyros was not patentable and, therefore, that Adkins could not claim it as infringing his patent.

suant to its provisions.¹⁵ We must, therefore, turn our attention to the question whether Lear effected a termination of the license agreement.

We will consider first the question whether Lear validly terminated the agreement under paragraph 6.

As we have seen, paragraph 6 provided that Lear could terminate the agreement in the event the Patent Office refused to issue a patent on the substantial claims of the application (Exhibit B).¹⁶ The crux of Lear's argument is that Adkins was required to obtain a valid patent based on method claims and that the agreement related only to those claims set forth in the application at the time the contract was entered into, or their substantial equivalents. Lear also contends that section 6 did not require final action by the Patent Office in rejecting Adkins' application before the right to terminate arose and that it was justified in terminating the agreement on April 8, 1959, because the Patent

¹⁵Lear relies on authorities holding that a licensee may terminate a license agreement upon notice to his licensor even though, prior to termination, there has been no adjudication of invalidity of the patent which is the subject of the agreement and that thereafter the licensee may challenge the validity of the patent. (See, e.g., *The Armstrong Co. v. Shell Co. of Cal.* (1929) 98 Cal.App. 769, 778-779.) This rule has no application if the agreement sets forth the particular circumstances under which termination must occur. As stated above, such provisions must be complied with in order to effect a valid cancellation.

¹⁶This provision also permitted Lear to terminate the agreement under certain conditions subsequent to the issuance of a patent. Thus Lear was given the power to cancel the agreement if a patent which issued on the claims of the application was subsequently held invalid. Obviously, any power of termination Lear may have had under such a provision could not be exercised until after the issuance of the patent. It may be noted in this connection that it has been held under a similar provision that the licensee itself could not challenge the validity of the patent in a suit for royalties under the agreement. (*United States v. Harvey Steel Co.* (1905) 196 U.S. 310, 316.)

Office had refused by its rejections of March 21, 1957, and June 20, 1958, to allow Adkins' claims relating to bearings.

The rebuttal to these contentions is contained in the provisions of the agreement, which neither party asserts is ambiguous. An examination of those provisions demonstrates Lear incorrectly asserts that the license which was the subject of the agreement related *solely* to method claims contained in the application at the time the agreement was executed. Indeed, the parties could hardly have defined the scope of the license in a broader manner. It was to cover not only patented or patentable claims disclosed or intended to be disclosed by the application attached as Exhibit B to the agreement but also such claims in other applications filed for different but related inventions revealed by the exhibit.

Nowhere in the agreement was there a restriction as to the type of claims (i.e., apparatus or method claims) to which the license was to apply, nor any implication that the coverage of the agreement was to be restricted to claims in the application at the time of the agreement. Under section 2(a) Adkins granted to Lear an exclusive license under all the patented or patentable claims of Exhibit B and "any patents hereafter issued thereon" to manufacture and sell products containing his inventions. The term "claims" was defined as those claims which were patented or patentable. Paragraph 3(a) provided that royalties were to be paid on products incorporating Adkins' "inventions" and that term was defined (par. 1(d)) as "all claims . . . disclosed or intended to be disclosed" in Exhibit B "but only to the

extent that such claims . . . are patented or patentable" by Adkins.¹⁷

Thus it appears that Adkins granted Lear a license on all patented or patentable claims of Exhibit B and the claims of any patents issuing thereon, and Lear agreed to pay royalties on all products incorporating patented or patentable inventions disclosed or intended to be disclosed by Exhibit B, which is defined in paragraph 1(b) as follows: "The phrase Exhibit 'B' as used in this Agreement shall be deemed to refer to and include the application for United States Letters Patent filed on February 15, 1954, attached hereto, and all continuations and divisions thereof, and all patents issued or issuing thereon to Adkins with respect to the inventions disclosed or intended to be disclosed therein and all improvements thereof, and all renewals, extensions, reissues of any patents issued pursuant thereto."

It clearly appears from the provisions quoted above that the parties intended to license not only those claims eventuating in a patent which were set forth in the application at the time of the agreement, but also any claims intended to be disclosed in the application, without any restriction as to the type of claims allowed.¹⁸ The license extended even to related inventions disclosed

¹⁷Lear states that the license extended only to *validly* patented claims. However, the provisions of the agreement setting forth the scope of the license do not so state. The validity of the patent was adverted to in the agreement only in connection with the right to terminate if the patent "was subsequently held invalid." As pointed out in footnote 16, *ante*, the quoted words constitute a condition subsequent which could not be exercised by Lear until after a patent had been issued.

¹⁸As noted above, Adkins could not, under the patent laws, amend his application to substitute claims describing an invention entirely different from that described in the original application.

by the application or improvements of a disclosed invention for which a divisional or continuation application would be required and which would eventuate in a patent. Lear's obligation to pay royalties was, of course, based on the use of such inventions in its products.

The unimportance of particular application claims at the time the agreement was consummated is indicated by the fact that Exhibit B did not constitute a copy of the application as it then existed in the Patent Office but contained claims which, with the knowledge of both parties, had already been rejected. The application was, as we have seen, filed on February 15, 1954, and the claims going to a method of bearing alignment as well as Claim 9 had been rejected on September 8, 1954. Amendment A, also relating to a method of bearing alignment, was filed on March 7, 1955. Both parties were aware of this but nevertheless Exhibit B did not include Amendment A and indicated the claims in the form in which they had appeared in the original application.

Lear knew that the method claims in the original application had been rejected prior to the execution of the license agreement, yet the terms of the contract not only failed to restrict the license to method claims or to claims in the application at the time the contract was signed but defined the scope of the license in an extremely broad manner. Under these circumstances, Lear's contention that it bargained only for a license of claims relating to a method of aligning bearings cannot be sustained.

Moreover, there is nothing in the contract to indicate that Lear could unilaterally anticipate Patent Office action and determine, prior to final action by that

agency, that Adkins could not obtain a patent on the invention disclosed or intended to be disclosed by the application. Section 6 provided that Lear could terminate the agreement in the event the Patent Office *refused* to issue a patent on the substantial claims of Exhibit B. There was no way to determine in advance of final action whether a refusal would eventuate or whether Adkins would receive a patent. Neither of the rejections of the Patent Office prior to Lear's termination of the agreement were denominated final rejections. Lear had the advice of counsel experienced in patent matters in negotiating the agreement, and it must have known that the prosecution of an application consists of the rejection and amendment of the claims of the application and that this procedure is time-consuming. Nevertheless, it unilaterally determined after the first rejection of the claims subsequent to the agreement that it would no longer pay royalties on the steel gyros and, after a second rejection, it terminated the agreement altogether on the ground, *inter alia*, that the Patent Office had refused to issue a patent on the substantial claims of the application. There is not the slightest indication in the agreement that the parties were concerned with intermediate actions of the Patent Office in rejecting particular types of claims, and it cannot be said that there was a refusal to grant a patent as to the claims of Exhibit B, as defined in the agreement, on the basis of these intermediate rulings.¹⁹

¹⁹Another contention made by Lear is that Adkins improperly added new matter to his application in an amendment to the specifications filed on December 22, 1958. It is argued that by this amendment Adkins changed his invention to something entirely different than was contemplated by the parties when they entered into the license agreement. In view of the conclusion reached above, that the parties intended to license

Lear relies on *Marvin v. Mills Alloys, Inc.* (1939) 31 Cal.App.2d 549, in support of its contention that it could unilaterally determine prior to final Patent Office action that Adkins would not obtain a patent. There, the agreement provided that the plaintiff granted to the defendant a license to use a described invention. The invention was a one-element device which the agreement stated had been manufactured by the defendant previously. It was also provided that the plaintiff would file an application for a patent on that device and that if he was finally unsuccessful in obtaining a patent for it, royalty payments would cease. The plaintiff filed an application in accordance with the agreement, but the application was denied on the ground that patents had been obtained on the same invention by another. The defendant refused to pay further royalties. Thereafter, the plaintiff obtained a patent for a three-element invention, which included the single-element device the defendant was manufacturing. It does not appear whether the application upon which the patent was issued was the same one as originally filed.

The court held that the three-element device of the patent was different from the device manufactured by the defendant, that the plaintiff was unable to secure a patent on his original invention, which was the subject matter of the agreement, and that, therefore, the defendant was not liable for payment of royalties for manufacturing the original invention.

any patent which issued on the basis of Adkins' application (subject to certain conditions subsequent to the issuance of the patent giving Lear the right to effect a termination), we need not discuss the substance of this contention in reaching a conclusion on the issue of termination.

The differences between *Marvin* and the instant case are obvious. The question decided there was whether the plaintiff obtained a patent on the same device as was specifically referred to in the agreement. Here, the agreement related to any patented or patentable invention disclosed or intended to be disclosed by the claims of the application, not to a particular device described. There is dictum in *Marvin*, not necessary to the decision, that when the Patent Office denied the plaintiff's application "no patent could be obtained by him except upon a different invention." In view of the normal procedures followed in patent applications, we disapprove this language insofar as it implies that a single rejection of an application by the Patent Office constitutes a final determination that no patent may be issued on an invention disclosed in an application.

The next question to be determined is whether the license agreement was validly terminated under paragraph 2(a).

Lear had the right, under paragraph 2(a) to cancel the license upon 90 days' written notice to Adkins. Lear maintains that this provision granted it an absolute right to cancel the agreement at any time without discontinuing the use of Adkins' invention, while Adkins asserts that when the license agreement is viewed as a whole it shows that Lear could not exercise its right to terminate unless it also stopped utilizing his invention.

Lear urges that we should not require the cessation of manufacture as a condition precedent to 2(a) termination because another provision of the agreement (paragraph 3(g)) indicates that the parties had cessation of manufacturing in mind when they entered

into the agreement, and if they expressed such a condition precedent as to one contingency they would have, if they so intended, expressed it as a condition to 2(a) termination as well. Paragraph 3(g) provided that Lear must pay Adkins minimum royalties of \$500 a year from January 1, 1957 onward so long as the license was still in effect (e.g., whether or not Lear used Adkins' invention) and that if Lear failed to pay minimum royalties Adkins could cancel the agreement and thereafter Lear would be prohibited from using the invention. A number of cases are cited in support of Lear's argument and, while their holdings favor Lear, they make clear that the ultimate consideration in determining whether to imply a covenant in an agreement is the intention of the parties as shown by the contract construed as a whole.²⁰

A covenant may be implied where it is indispensable to effectuate the intention of the parties, where it is clear from the language used that the provision was so clearly within their contemplation that the parties deemed it unnecessary to express it, where it would

²⁰In *County of Alameda v. Southern Pac. Co.* (1961) 55 Cal.2d 479, 488, it was held that where a contract set forth two particulars in which one party would indemnify another for negligence, when the contract was construed as a whole it was reasonable to conclude that they would have made express provision for indemnification under a third set of circumstances, if they had so intended. In *Stimpson Computing Scale Co. v. W. F. Stimpson Co.* (1900) 104 F. 893, a license agreement under an issued patent provided that the licensee could terminate the contract on six months' notice in writing of its intention to discontinue manufacturing a device "under this contract." The court held that when all the language of the agreement was considered, the effect of the provision was only that manufacture after notice of termination must cease under the terms of the contract but that there was nothing to indicate that the manufacturer intended to stop utilizing the invention apart from the contract. After termination, it was stated, the manufacturer might be subject to an action for infringement of the patent.

have been inserted into the contract if attention had been called to it, and where the subject is not completely covered by the contract. (Lippman v. Sears, Roebuck & Co. (1955) 44 Cal.2d 136, 142.) There seems little doubt that when the contract here in issue is viewed as a whole, it shows an intention that Lear would discontinue the manufacture of products using Adkins' invention if it terminated the agreement under paragraph 2(a). One indication of such an intention is that the termination provision of paragraph 6, under which Lear could terminate in the event the Patent Office refused to issue a patent on the substantial claims of the application, would be almost wholly redundant if Lear could, for any reason or no reason, exercise a right of termination under paragraph 2(a) and still continue to use Adkins' invention.

Another indication of the intention of the parties is provided by a comparison of two provisions of the agreement permitting Adkins to terminate in the event Lear defaulted in its payment of royalties. Under paragraph 3(g), as set forth above, Adkins could terminate the agreement if Lear failed to pay \$500 in minimum royalties yearly, and thereafter Lear could no longer manufacture products containing Adkins' inventions. Paragraph 10(a) gave Adkins the right to terminate the agreement in the event Lear defaulted in the payment of *earned* royalties. However, this provision did not state that Lear would thenceforth be prohibited from manufacturing products incorporating Adkins' invention. It would be absurd to assume that the parties intended that Adkins could require Lear to stop using his invention if Lear failed to pay royalties of \$500 a year but if Lear defaulted in its payment of

earned royalties in a very much larger amount, Adkins could terminate the agreement under paragraph 10(a) and nevertheless Lear could continue to use his invention. It seems evident that the parties did not expressly state in some provisions the requirement that Lear discontinue manufacturing products utilizing Adkins' invention in the event of termination, although they so intended.

Also persuasive are the provisions of two agreements entered into between Adkins and Lear on September 15, 1955, the same date as the license agreement. These agreements, relied upon by Lear in its answer as the basis of an affirmative defense, provided that Adkins released Lear from any claims he might have against Lear prior to September 15, 1955, including claims arising out of the agreement of December 29, 1951, *except* that he retained those rights which were secured to him by the simultaneously executed license agreement. Aside from the rights set forth in the license agreement, all inventions of Adkins prior to and after September 15, 1955, were to belong to Lear.²¹

When viewed in the light of these contemporaneous agreements, Lear's insistence that it could exercise paragraph 2(a) termination and still continue to use Ad-

²¹There is confusion in the record regarding these two agreements. They were attached as exhibits to Lear's second amended answer and their relevant portions were set forth in the answer as the substance of affirmative defenses to all the causes of action. There is no question of their due execution. However, when they were offered in evidence at the trial, the court excluded them as irrelevant to the first cause of action. Nevertheless, both parties rely on them in their arguments. Lear contends that these contemporaneous contracts are integrated into the license agreement and that by virtue of the release agreement Adkins expressly contracted away all rights to any inventions except as set forth in the license agreement.

kins' invention amounts to an assertion that the parties intended by the license agreement to grant to Lear Adkins' right in the invention which was the subject of that agreement for the \$500 recited as consideration for its execution.²³ That is, acceptance of Lear's contention would mean that although it was clearly understood prior to September 15, 1955, that Adkins' inventions conceived in his employment would be his own property, Lear could, the day after the license agreement was signed, simply by giving notice of termination under paragraph 2(a), extinguish Adkins' right in the invention covered by the license agreement because the simultaneously executed contracts released all of Adkins' other rights against Lear arising out of his employment. We cannot construe the license agreement in a manner so manifestly alien to its entire purpose.

Adkins argues persuasively that the purpose of paragraph 2(a) was to permit Lear to avoid the payment of minimum royalties in the event it no longer wished to use his invention. Under paragraph 3(g) such royalties were payable while the license was in effect, whether or not Lear used the invention, and if there had not been some provision permitting termination of the license by Lear in the event of nonuse, it would have been liable for the payment of minimum royalties throughout the 17-year life of any patent subsequently issued.

We comment on one other matter briefly before concluding the discussion of the license agreement. Lear placed in evidence a letter from one of its employees,

²³The provision setting forth the consideration itself negates such a construction since it states that the \$500 is paid in consideration of the "foregoing" and "the covenants and conditions hereinafter contained."

stating that he believed he had introduced cemented-in bearing cups using a mandrel procedure in 1953, which was a year before Adkins filed his application for a patent. The device of cemented-in bearing cups using a mandrel procedure constitutes the essence of Adkins' invention, as described in his application. Lear's contention amounts to no more than a claim that it entered into a bad bargain when it signed the license agreement.

Since we have concluded that the license agreement was not properly terminated by Lear, it follows that Lear has been in breach of the contract since September 10, 1957, the date on which it ceased to pay royalties to Adkins on the steel gyros.²³ It follows also that the doctrine of licensee estoppel is applicable and Lear is foreclosed from challenging the validity of Adkins' patent. The trial court thus erred in granting Lear's motion for judgment notwithstanding the verdict as to the steel gyros on the ground that Adkins' patent is invalid. As set forth above, the court also granted a new trial in the alternative on several grounds, including insufficiency of the evidence.

One of the major bases of Lear's motion for a new trial was the assertion that the evidence was insufficient to support the jury's implied determination that Lear incorporated Adkins' invention in its products.

²³This conclusion is, of course, subject to our determination regarding the question of whether Lear used Adkins' invention. That is, Lear's termination under paragraph 2(a) is valid if it refrained from using Adkins' device. Since, as we have seen, Lear has stipulated that it continued to manufacture the steel gyros both before and after the termination letter of April 8, 1959, the question of termination is inextricably bound up in the issue of whether the instruments manufactured by Lear incorporated Adkins' invention.

The agreement clearly sets forth that royalties are to be paid only for patented or patentable claims which Lear utilized in its products. We are therefore presented with the second major issue in this case, i.e., whether there is any substantial evidence to support the trial court's conclusion, implicit in its order granting the new trial, that the steel gyros do not incorporate Adkins' invention as defined in the claims of the patent. (See *Richardson v. Ham* (1955) 44 Cal.2d 772, 775.) We conclude, for the reasons hereinafter stated, that the evidence establishes that Lear used Adkins' invention in its steel gyros and that there is no substantial evidence to the contrary.

In determining the question before us we must ascertain what it is that Adkins invented. The resolution of this issue requires that the claims of the patent be construed, and this is a question of law for the court. (*Rogers v. Hensley* (1961) 194 Cal.App.2d 486, 491; see 4 *Walker on Patents* (Deller 2d ed. 1965) pp. 66-67.) Although the present action is not for infringement of a patent but rather one for the recovery of royalties under a license agreement, the test whether the products manufactured and sold by the licensee come within the coverage of the patent is the same as that employed in a patent infringement suit. (*American Photocopy Eq. Co. v. Ampto, Inc.* (N.J. 1964) 198 A.2d 469, 475.)

Claims must be construed in the light of the specifications and drawings of the patent and the file history of the patent's prosecution. Claims which have been allowed cannot, under the doctrine of file-wrapper estoppel, be held to cover what has previously been eliminated from the patent application in order to avoid a rejection.

tion. (*Oregon Saw Chain Corp. v. McCulloch Motors Corp.* (9th Cir. 1963) 323 F.2d 758, 762, 768; *Moon v. Cabot Shops, Inc.* (9th Cir. 1959) 270 F.2d 539, 543.) A third rule applicable to the construction of the claims of a patent is that an accused infringer may cite the prior art to construe and narrow the claims of the patent, and if he is successful in demonstrating that he has built his device solely according to the teachings of the prior art, the mere fact that the device constructed reads upon the claims of the patent assertedly infringed does not render him liable. (*Westinghouse Co. v. Formica Co.* (1924) 266 U.S. 342, 351; *Casco Products Corporation v. Sinko Tool & Mfg. Co.* (7th Cir. 1940) 116 F.2d 119, 121.)

Adkins contended at the trial that the four steel gyros were covered by the literal language of the claims as well as under the doctrine of equivalents. Under this principle if two devices do the same work in substantially the same way and accomplish substantially the same result, they are the same, even though they differ in name, form or shape. (*Graver Mfg. Co. v. Linde Co.* (1950) 339 U.S. 605, 608.) The issue of infringement is a question of fact for the jury unless there is no substantial conflict in the evidence. (See 69 C.J.S. 1016.)

It is manifest from the most cursory examination of the record that the steel gyros, like Adkins' patent, utilize a pair of bearing cups which are positioned with use of a mandrel into oppositely placed receiving holes in a frame or gimbal, and cemented into place. The 2156 gyro, to be discussed later, like the illustration of the Adkins' patent application, utilizes spherical bearing cups which rest within conical receiving holes. The

steel gyros, however, utilize pairs of elements having a different configuration. The receiving holes are cylindrical in shape and the bearing cups consist of cylindrical discs which fit within the receiving holes but because of an oversized flange at the open end of the cup, cannot be inserted entirely within the hole. It is held in place not only by cement between the cylindrical surfaces within the hole, but also by cement between the flanged surface and shoulder of the hole. Our problem basically, is to determine whether such an apparatus "infringes" the apparatus described in Adkins' patent.

The file wrapper of Adkins' patent application shows approval and issuance of Claims 9 through 16, not to be confused with earlier claims, some of which bore the same numbers. These are all apparatus claims and differed basically from prior claims in that they related to a *pair* of bearing structures for the first time. Claim 9, which is the principal claim upon which the other allowed claims depend, states: "An apparatus for supporting bearings in aligned relationship which comprises a pair of bearing-receiving elements each providing means to removably support a bearing in a fixed relationship with said element, each of said bearing-receiving elements having a mounting surface by which it may be supported, means for supporting said bearing receiving elements at opposed relatively spaced positions, said supporting means providing supporting surfaces generally corresponding to said mounting surfaces and permitting said elements to be initially adjustably shifted relative to said supporting means into oriented positions where said bearing-supported means are in alignment with each other, and means to retain said

bearing-receiving elements in said oriented positions to permit pairs of bearings to be interchangeably mounted in aligned relationship supported by said bearing supporting means." One of the stated objects of the invention is "... to provide a novel method of aligning the various bearings in the gimbal mountings, whereby exact coaxial alignment and parallelism between opposed bearings may be achieved."

The receiving holes in the gimbal are illustrated in the drawing submitted with the application as being conical in shape, and the outer contours of the bearing cups as being spherical. In this connection it is stated in the specifications: "The engaging spherical and conical surfaces permit the bearing race axis to be oriented in any direction during the adjusting period whereby coaxial alignment and parallelism of the bearing races may be easily effected. Other surfaces capable of being aligned and fixed in position such as a sphere in sphere, knife edges or other devices may be used without coming outside the scope of this invention. ..."

The specifications also provide as follows: "While the use of mating conical and spherical surfaces has been mentioned, it is apparent that other similarly cooperating surfaces can be used. For example, a spherical surface can be used within another spherical surface, and other combinations can be employed. ... Further, not only may the confronting surfaces ... be of any desired configuration, my invention also is not limited to the alignment of bearings of a gyroscope. ... Modifications employing the principles of the present invention will occur to those skilled in the art. While a preferred form has been shown and described, it is to be understood that the invention is not to be re-

stricted to the particular form and arrangement of parts herein described and shown, except as limited by the following claims."

It is obvious that the literal language of Claim 9 and the specifications, which expressly make provision for "other surfaces capable of being aligned and fixed in position", "other similarly cooperating surfaces", and "confronting surfaces . . . of any desired configuration", intend to cover within the scope of the invention receiving holes and bearing cups having mating surfaces of any configuration which will permit the angular adjustment of the bearing cups to a common axis, unless expressly excluded by other specific language.

We are unable to discern any specific or inferential language of exclusion of the configurations utilized in the steel gyros. The language of the claim itself requires only that the two surfaces "generally correspond." We cannot infer therein any intent to limit such correspondence to the precise configuration of a spherical bearing cup and a conical receiving hole, any more than to a cylindrical hole and a cylindrical disc which partially rests within the hole, supported by a flanged part of the disc. Moreover, the specifications do not purport to limit the configurations to any one or more combinations of shapes, but instead contemplate all configurations which reasonably might perform the described function. (See *Reiner v. I. Leon Co.* (1960) 285 F.2d 501, 504; *Filtex Corp. v. Amen Atiyeh* (1954) 216 F.2d 443, 446-447; *Chicago Pneumatic Tool Co. v. Hughes Tool Co.* (1938) 97 F.2d 945, 946-947.)

Relying on the doctrine of file-wrapper estoppel, Lear claims that Adkins is estopped to assert that the al-

lowed claims cover the particular application of the bearing cup and receiving holes utilized in the steel gyros. The record does not support Lear. As stated, Claim 9 allows for bearing cups and receiving holes having mating surfaces of any configuration permitting angular adjustment. Here the accused apparatus falls within the literal language of the claim, thus determining the issue of coverage.²⁴ (*Graver Mfg. Co. v. Linde Co.* (1950) *supra*, 339 U.S. 605, 607.) Moreover, there is no basis for an estoppel because the particular claims at issue had not been previously rejected and thus had not been limited by Adkins as the result of a prior rejection, and this is also true with respect to the configurations claimed by Lear to differentiate its steel gyros from Adkins' patent.

Lear's further claim that Adkins' patent describes an apparatus "different from the invention contemplated by the parties and set forth in the patent application at the time of the execution of the license agreement," is not borne out by the file wrapper. Consistent with the application developments heretofore noted, the patented apparatus falls within the scope of the initial application and, because Lear has adapted it to its steel gyros, we must conclude that the patented apparatus was within the contemplation of the parties.

It is also argued that because the spherical cups come to rest in the conical receiving holes and, while thus bearing on the conical surfaces, are cemented into permanent place, Adkins' patent is limited to those configurations which provide for contact or ball joint action

²⁴As we shall see, it cannot be said in the present case that the device used in the steel gyros was built entirely according to the prior art.

between the elements.²⁵ There is nothing which supports this contention. Although, such contact would normally be made, the scheme of the patent does not require it and the apparatus would be functional with or without contact while the elements were adjusted and cemented into position. Conversely, the elements used in the steel gyros, although normally not in contact, would nevertheless be functional although contact was made. The question of contact, accordingly, is not material to the issues.

There is likewise no merit to the assertion that the steel gyros do not infringe upon Adkins' invention for the reason that alignment may be accomplished in the steel gyros by the lateral movement²⁶ of the bearing cups, whereas Adkins' invention does not provide for such movement. Although it is possible that lateral adjustment may accomplish some other desirable function or adjustment in the steel gyros, the alignment of the bearing cups in either the Adkins or steel gyros can be accomplished only by the angular displacement of the two cups to the same axis; that is, the axis of the mandrel, with or without lateral movement of the bearing cups. The added feature of lateral movement in the steel gyros, if it can be deemed as such, does not operate to negate an infringement of the Adkins patent if the steel gyros incorporate any claim set out in the patent. (See *Temco Co. v. Apco Co.* (1928) 275 U.S. 319, 328.)

²⁵In the steel gyros, cement may be interposed between all parts of the bearing surfaces.

²⁶"Lateral movement" in these circumstances, sometimes referred to as "radial movement," is movement in a direction 90 degrees displaced from the coaxis of the bearing cups.

Even if the literal language of Claim 9 did not cover the adaptation utilized in the steel gyros, the doctrine of equivalents would require that we conclude that Lear utilized Adkins' invention. Here the steel gyros contain the same elements, although perhaps different in size, form and shape, as in the Adkins patent, and they accomplish substantially the same function in substantially the same way. As the Supreme Court said in *Graver Mfg. Co. v. Linde Co.* (1950), *supra*, 339 U.S. 605, at pages 607-608, "One who seeks to pirate an invention, like one who seeks to pirate a copyrighted book or play, may be expected to introduce minor variations to conceal and shelter the piracy. Outright and forthright duplication is a dull and very rare type of infringement. To prohibit no other would place the inventor at the mercy of verbalism and would be subordinating substance to form. It would deprive him of the benefit of his invention and would foster concealment rather than disclosure of inventions, which is one of the primary purposes of the patent system. The doctrine of equivalents evolved in response to this experience. The essence of the doctrine is that one may not practice a fraud on a patent."

It remains to be seen whether the steel gyros, although falling within the claims of Adkins' patent, nevertheless can be shown to rely solely on the teachings of the prior art, and thus permit Lear to escape any liability to Adkins. As stated above, we are required to examine the prior art not only to determine the scope of Adkins' invention but also to determine whether what is being built by Lear springs entirely therefrom. (See *Casco Products Corporation v. Sinko Tool & Mfg. Co.* (1940), *supra*, 116 F.2d 119, 121.)

Lear claims that "if defendant's devices, when compared with the teachings and disclosure of the prior art as construed by the court, accomplish substantially the same thing, and perform substantially the same result, in substantially the same way by substantially the same means as do the prior art patents then as a matter of law, defendant's products cannot infringe plaintiff's later-issued patent. Further, even if every detail of defendant's device is not completely taught by such prior art, but if it would require only ordinary mechanical skill to come up with defendant's devices in view of such prior art, then again defendant's devices as a matter of law, cannot infringe plaintiff's patent or incorporate a patentable invention of plaintiff." The trial court concluded that the prior art did, in fact, anticipate the steel gyros. It and Lear rely on the prior Schwan and Moody patents.

The Schwan patent discloses a device for aligning the rotor of a motor. It provides for a bearing, a bearing cup, and a means of fixing the cup to the frame of the motor. In these respects it is similar to the Adkins' patent. However, Schwan does not provide for angular tilt of the bearing cups, but rather for alignment of the bearings solely by the lateral movement of the cups. Parallelism is achieved in Schwan solely by the built-in parallelism of the surfaces to which the bearing cups are attached, whereas Adkins teaches that parallelism as well as coaxial alignment is to be achieved through the relative angular displacement of the bearing cups. Clearly, Schwan does not provide for the same kind or degree of cooperative relationship between the elements as Adkins, and does not accomplish the same results. Lear utilizes the Adkins' distinctions and relies on the Adkins' results.

In the Moody patent, bearings and bearing cups are fitted onto a shaft of a rotor and mounted by means of a press fit into a frame. The press fit is loose enough to permit the bearings to assume the alignment of the shaft when tapped with a hammer. Unlike Adkins, Moody does not provide for a prealignment of the bearings prior to the mounting of the shaft, does not permanently fix the bearing cups in position, and does not allow the removal and replacement of the bearings without realignment thereafter. Again, Lear's devices utilize all those distinctions by which Adkins' invention differs from that of Moody.

Other patents were urged by Lear as constituting prior art on which both Adkins and Lear relied. Thus, in Grenat, parallel and coaxial alignment is initially achieved, but bearing cups are not utilized, and bearings cannot be interchanged without disturbing the alignment. In Sperry, Carlson, and Herr, a "universally mounted" bearing is utilized which constantly adjusts itself to maintain alignment while in operation. It thus does not provide fixed coaxial and parallel alignment.

In no respect was the prior art demonstrated to provide, by individual patent or collectively, a means of permanently fixing a pair of replaceable bearings on coaxial and parallel alignment.²⁷ We cannot say, as urged by Lear, that the prior art disclosed a means by which it could accomplish substantially the same result, in substantially the same way by substantially the same means as does the Adkins' patent. Nor can we say

²⁷A Lear witness testified that the interchangeability of bearings without total realignment of parts "is the key to the whole gyro design."

that by the application of ordinary mechanical skills to the prior art, the same result may be accomplished. The prior art fails to anticipate the Adkins' patent, or the utilization made thereof by Lear. Although the basic elements of the patent—bearing cups, and a means of attaching the cups—have heretofore been utilized in cooperation with each other, Adkins nevertheless makes a significant step forward in the innovation and utilization of the cooperative relationship by which he employs these elements. (See *Bates v. Cole* (1878) 98 U.S. 31, 48; *International Manufacturing Co. v. Landon, Inc.* (1964) 336 F.2d 723, 726.) In *Bates*, supra, at page 48 of 98 U.S., the United States Supreme Court pointed out that where the thing patented consists of a combination of old elements, incapable of division or separate use, the alleged infringer cannot escape liability by showing that separate parts of the entire invention are found in various prior patents because such evidence does not warrant the conclusion that the plaintiff is not the original inventor of the patented improvement asserted to be infringed.

We conclude that the record demonstrates, without substantial conflict, that Lear utilized the apparatus patented by Adkins throughout the period in question. This conclusion is significantly supported by Lear's admission, hereinafter considered, that the 2156 gyro infringes the Adkins patent. The record shows that the 2156 gyro differs from the steel gyros only by the configuration of the mating surfaces of the bearing and receiving holes. Accordingly, the order granting the motion for a new trial cannot be affirmed on the ground of insufficiency of the evidence. Indeed, when the claims of the patent are interpreted in the manner

set forth above, the conclusion that Lear utilized Adkins' invention in its steel gyros is compelled by the record.

The motion for a new trial was also granted on the ground that the jury awarded excessive damages under the influence of passion or prejudice. A witness for Adkins testified that the royalties due under the provisions of the contract were \$904,474.49, which was the exact amount awarded by the jury. This figure was based upon data supplied by Lear as to sales of products assertedly incorporating Adkins' invention, as well as upon Adkins' views as to which products were royalty-bearing. Adkins' contention, which the jury accepted, was that under the agreement Lear was required to pay royalties not only upon the gyros which utilized his apparatus but also upon certain other components and accessories manufactured by Lear for use with the gyros. Lear's sole basis for a new trial on the question of damages was that the jury improperly included in the damages awarded, royalties resulting from the sale of components and accessories independent of the gyro itself. The determination of this question depends upon the construction of the words "gyro system" as used in the agreement. If this term is construed in the manner asserted by Adkins, the damages awarded by the jury are correct as a matter of law.

The agreement provided that royalties were to be paid on all gyro assemblies and all gyro systems embodying Adkins' invention. These terms were defined in the agreement as set forth in the footnote.²⁸ For our

²⁸Paragraph 1(e) of the agreement provided: "The term 'gyro assembly' as used herein is defined as the cased instrument which intimately contains the gyro structure and other

(This footnote is continued on the next page)

purposes a "gyro assembly" is the gyro itself, and a "gyro system" consists of the assembly together with other components and accessories. There is no dispute with respect to gyro assemblies—the parties agree that the whole of any assembly embodying Adkins' invention is subject to a royalty. The dispute relates to whether particular components and accessories are to be included within a system, and thus to be subject to the royalty. In determining whether a particular component or accessory constitutes a part of a gyro system and thus is royalty-bearing, it was provided that the test would be whether removal of that particular item from the system affected the accuracy of the signal which the system delivered to indicators, recorders or other consumers of the output signal. If accuracy was affected, the accessory or component was deemed to be a part of the gyro system. The parties referred to this as the "accuracy affecting test."

In answer to interrogatories and by stipulation, Lear admitted that a large number of components and accessories manufactured by it and incorporated into its systems met this test. The uncontradicted evidence established that other products, not included in the admissions, also met this test.

Lear argues that the accessories claimed by Adkins to meet the accuracy-affecting test and, therefore, to be

appurtenances necessary for proper operation of the gyro structure, all of which are included within the gyro assembly case."

Paragraph 1(f) provided: "The term 'gyro system' as used herein is defined as the 'gyro assembly' and components or accessories necessary to produce earth and/or aircraft gyro signals for use by other equipment such as indicators, autopilots, bombing systems, fire control systems, etc., which such other equipment such as indicators, autopilots, bombing systems, fire control systems, so using the gyro system signals shall not be considered as part of the gyro system."

royalty-bearing do not meet these qualifications. This contention is based upon the testimony of an employee of Lear that although Lear had admitted that the products designated in the interrogatories in question were accuracy-affecting, these admissions were based upon the definition of the term "gyro system" as generally used in the industry. He went on to state that this term, *as used in the agreement*, had a much more restricted meaning and that when viewed in the light of this limited definition the accessories designated in the interrogatories were not accuracy-affecting. His views in this respect were based upon the language of the agreement itself.²⁹ Adkins testified that the meaning of the words in issue was the same in the agreement as in the industry and included the components and accessories in issue.³⁰ The trial court agreed with Adkins' construction of the agreement and instructed the jury that Lear had admitted that specified products were accuracy-affecting.

²⁹In essence, he testified that a "gyro system," as used in the agreement, meant only a gyro itself in its case and that if the broader definition of that term current in the industry were adopted, the accessories and components asserted by Adkins to be accuracy-affecting would be included in the term "gyro system." He referred not only to the direct definition of the words in issue as quoted in footnote 28, *ante*, but also to various examples given in the agreement of the items to be included in computing net sales price on which royalties were to be based.

³⁰Lear also argues that the parties themselves interpreted the royalty base to be only the gyros and not the other components and accessories. In support of this claim Lear points to the fact that prior to the purported termination of the agreement Adkins had accepted royalties on only the gyro itself in the model 1005 assembly. However, it is uncontradicted that Adkins did not know at the time he accepted these royalties what instruments the 1005 assembly consisted of. He could not, therefore, be viewed as having waived any rights he may have had in this regard.

Since the issue concerns the interpretation of a provision in a contract which neither party asserts to be ambiguous, the construction of the words in issue is a question of law for the court. (*Estate of Platt* (1942) 21 Cal.2d 343, 352.)⁸¹

In paragraph 1, subdivision (g), the agreement provides: "In determining whether any particular component or accessory constitutes a part of the gyro assembly or gyro system, the test shall be to ascertain whether removal of the particular component or accessory affects the accuracy of the gyro assembly or gyro system signals. If removal does affect the accuracy of the gyro assembly or gyro system signal, the component or accessory removed shall be deemed a part of the gyro assembly or the gyro system, but if removal does not affect the accuracy of such signal, then it shall not be deemed a part of the gyro assembly or gyro system."

It is immediately manifest that whatever Lear's admissions in the interrogatories and stipulations, and whatever the industry's definition of a gyro system, all components or accessories which affect the accuracy of the signal delivered to a consumer unit itself, are intended as a part of the royalty-bearing system un-

⁸¹*Platt* holds that an appellate court is not bound by a construction of a contract based solely upon the terms of a written instrument without the aid of evidence, since there is no issue of fact to be determined. Here, both sides agreed that the words "gyro system" as used in the industry would include the components and accessories in issue, and the conflict related only to the interpretation of that term as used in the agreement itself. Thus, no factual issues are presented. (See also Civ. Code, § 1645.)

der the agreement.³² We are satisfied that the components and accessories here under discussion, which are limited to units which amplify, control and adapt the gyro signal so that it may be utilized by consumer units, all affect the quality or accuracy of the signal. Lear's witness did not seem to dispute the fact that such components and accessories are accuracy-affecting and generally are properly a part of a "gyro system" as contemplated by the industry but appeared to contend instead that the parties hereto did not contemplate such a "gyro system." As indicated, we are not bound by his construction of the unambiguous language of the license agreement, and no basis appears for excluding the components and accessories in question in determining royalties.

As stated above, Lear's sole assertion in its motion for a new trial on the issue of damages relates to the definition of the term "gyro system." We have concluded that this term includes components and accessories apart from the gyro assemblies themselves. In view of the facts that, as so defined, the accuracy-affecting characteristics of these instruments were either admitted by Lear or shown by uncontradicted evidence, that Lear itself provided the sales information upon

³²It is also apparent from paragraph 3, subdivision (d), that the parties contemplated the payment of royalties on the whole of a system containing accessories and components not themselves directly incorporating Adkins' patent. That subdivision provides: "Net sales prices with respect to the sales of products incorporating inventions licensed hereunder and also containing other assemblies or components in addition thereto which do not incorporate the said inventions, shall for the purposes of determining royalties payable to Adkins, be the price established in each such contract for the 'gyro assembly' or 'gyro system' as hereinbefore defined which incorporates the inventions herein licensed."

which the calculation of damages on this basis was made, and that the jury awarded the exact amount so calculated, the order for a new trial was not justified on the ground that excessive damages were awarded under the influence of passion or prejudice.

The other grounds upon which a new trial was granted were irregularity in the proceedings on the part of plaintiff by which defendant was prevented from having a fair trial, errors in law occurring at the trial, and that the verdict was against the law. We are mindful of the fact that all presumptions favor the order granting a new trial as against the verdict, that the order will be affirmed if it may be sustained on any ground and that the burden is on the party attacking the order to show an unmistakable abuse of discretion on the part of the trial court in granting a new trial. (*Yarrow v. State of California* (1960) 53 Cal.2d 427, 434.) Nevertheless, under the circumstances of the present case, we must conclude that the trial court's order must be reversed.

Most of the asserted errors urged by Lear in support of its motion do not constitute error in view of the matters discussed in the earlier portions of this opinion.³³ The alleged errors not covered by the prior analysis related to the question of utilization by Lear of Adkins'

³³Thus, Lear urged that the trial court should not have refused to instruct the jury that Adkins' patent did not cover the steel gyros as a matter of law, that the Patent Office's rejection of Adkins' application on March 21, 1957, constituted a failure of consideration as a matter of law, and that the trial court's jurisdiction of the action ended on April 8, 1959, when the agreement was purportedly terminated.

invention and with one or two minor exceptions³⁴ involved asserted errors in giving or refusing instructions on the issue of utilization. We need not discuss these claims of error since they could not have been prejudicial to Lear in view of our conclusion that the record compels a determination in favor of Adkins on this issue.

One asserted error requires further elucidation. Lear urgently contended in support of its motion, that the trial court should have permitted it to amend its answer during the trial to add the defense of unclean hands against Adkins. This defense was based on an alleged fraud upon the Patent Office in that Perry E. Turner, a patent agent who was employed by Lear from 1954 until the end of 1957 and who counseled Lear with respect to Adkins' application during that period, was subsequently employed by the law firm which prosecuted the application in the Patent Office and assisted in the prosecution under the supervision of one of the attorneys of that firm. There was no error in this regard. First, this is not a suit in which Adkins is attempting to enforce his patent as such, and we are not concerned with defenses which might be available to Lear in the determination of questions of validity and infringement. The cause is based on rights emanating from a written agreement, and the patent itself is referred to only for the purpose of determining whether Lear used the invention therein set forth.³⁵

³⁴Lear argued that the trial court erred in refusing to submit to the jury a large number of special interrogatories. It was also claimed that an exhibit introduced by Adkins was labeled in such a manner as to mislead the jury on the issue of the character of Adkins' invention.

³⁵This reasoning also applies to other assertions by Lear that Adkins perpetrated fraud upon the Patent Office.

Moreover, Lear's claim of inequitable conduct by Adkins is unmeritorious on its face. Turner's employment by the law firm representing Adkins did not occur until several months after Lear breached the agreement on September 10, 1957, when it informed Adkins that it would no longer pay royalties on the steel gyros. There is no contention that Adkins was not thoroughly familiar with the steel gyros and no showing that Turner had any confidential information secured while he was an employee of Lear which he could communicate to Adkins in the amendment of his application.

The 2156 Gyro

The discussion above is also applicable to the 2156 Gyro except as it relates to coverage. The trial court applied the doctrine of licensee estoppel insofar as the 2156 gyro was concerned and held as a matter of law that Lear was barred from challenging the validity of Adkins' patent as to that instrument. It directed a verdict for Adkins on the 2156 gyro, and the parties stipulated that the royalties due for the period in question were \$16,351.93. The trial court denied Lear's motion for judgment notwithstanding the verdict as to this gyro, but the order granting a new trial in the alternative covers all products in issue, including the 2156 gyro.

Lear concedes on appeal that it utilized Adkins' invention in its 2156 gyro. In view of this concession, the fact that the validity of the patent is not open to question, and the fact that the amount of damages was stipulated, the directed verdict in favor of Adkins and the denial of Lear's motion for judgment notwithstanding the verdict as to this gyro must be affirmed, and the granting of the motion for a new trial reversed.

It has been aptly stated that the trial court, no less than an appellate court, is expressly enjoined by article VI, section 13, of the Constitution, from granting a new trial for errors unless they are prejudicial, and that if it clearly appears that such errors could not have affected the result of the trial the court is bound to deny the motion. (*Sparks v. Redinger* (1955) 44 Cal.2d 121, 123.) Although the trial court may have erred in some regards with respect to instructing the jury on the question whether Lear utilized Adkins' invention, any errors which it may have committed could not have been prejudicial because, as we have concluded above, the jury would, in any event, have been required by the evidence to find in favor of Adkins on this issue. In view of our additional conclusions that Adkins' patent is presumptively valid and that the jury's determination of damages is correct as a matter of law, we are compelled to hold that the motion for a new trial as to the steel gyros must also be reversed.

We must, therefore, consider Lear's cross-appeal from the judgment entered on the jury's verdict on May 4, 1964, in favor of Adkins.³⁰ (Cal. Rules of Court, rule 3(a); see *White v. Aetna Life Ins. Co.* (1961) 198 Cal.App.2d 370, 378.) The contentions on the cross-appeal are identical to those discussed above or are clearly answered by the previous discussion. The only additional matter is Lear's argument that the trial court improperly excluded two letters sent to Lear by Adkins prior to the consummation of the license agreement. It is claimed that the exclusion of these letters was erroneous because they would be material if it were

³⁰This judgment was amended on December 30, 1964, to show that the trial court had dismissed Adkins' second cause of action.

found that the license agreement was ambiguous regarding its scope or Lear's right to terminate. Since there is neither a claim by the parties nor a finding that the agreement is ambiguous in these respects, there was no error in the court's refusal to admit these documents into evidence.

L.A. 29206

This appeal is by Adkins from the portion of the trial court's judgment dismissing his second cause of action which was pleaded as an alternative in the event it was held that Adkins could not recover on the first cause of action for breach of the license agreement.³⁷ Adkins alleged in the second cause of action that he had an unpatentable invention embodying his ideas relating to bearing alignment and Lear was liable for use of this invention under the theories of misappropriation by Lear in breach of confidence and breach of an implied-in-fact contract, and that Lear was also liable under the theory of unjust enrichment. The trial court did not permit the introduction of evidence to support the second cause of action, and the jury's verdict for Adkins was based on the first cause of action. Since we have held that Adkins is entitled to recover from Lear on his first cause of action, this portion of the judgment, dismissing the second cause of action, must be affirmed.

L.A. 29207

This appeal by Lear consists of (1) its appeal from the judgment on the directed verdict as to the 2156 gyro and from the trial court's denial of its motion

³⁷This is the judgment entered on May 4, 1964, on the jury's verdict in favor of Adkins and which was amended on December 30, 1964, to order the dismissal of Adkins' second cause of action.

for judgment notwithstanding the verdict as to that product; (2) its appeal from the whole of the judgment entered on May 4, 1964, on the jury's verdict in favor of Adkins;³⁸ and (3) its appeal from the trial court's amendment of the judgment dismissing Adkins' second cause of action. In connection with the latter, Lear contends that although the court acted properly in dismissing Adkins' second cause of action, it should have indicated that the reason for the dismissal was that Adkins had waived the second cause of action during the trial rather than because Adkins refused to elect between his first and second causes of action. As we have seen, the portion of the judgment dismissing Adkins' second cause of action must be affirmed.

L.A. 29205

This appeal is by Adkins' from a minute order of the trial court entered on January 24, 1964, requiring him to pay 45 percent of the cost of an independent audit of Lear's books. The total cost of the audit, which was made at Adkins' request, was \$17,880. Its purpose was to determine the number and amount of sales made by Lear of products claimed by Adkins to be royalty-bearing.

Adkins insists that the trial court's order requiring that the audit be made was imposed as a sanction against Lear for its deliberate concealment of sales information in answers to interrogatories and, therefore, that the trial court abused its discretion in imposing a

³⁸The subject matter of (1) and (2) is also involved in L.A. 29204.

portion of the cost on him.³⁹ However, an examination of the record shows that the court ordered the audit as an aid to it and to the parties, especially Adkins, on the issue of damages. It stated that the audit involved a financial burden which Adkins would have to undergo in any event for trial preparation and that it had no right to impose upon Lear the burden of financing Adkins' trial preparation. The trial court made it clear from the outset of the discussion of the independent audit that Adkins would be required to pay part of the cost. Prior to the court's order, Lear had spent over \$15,000 in auditing costs in order to comply with Adkins' requests for information, and Adkins had spent over \$5,000 in checking the information which Lear had provided.

Under all the circumstances, it cannot be said that the trial court abused its discretion in apportioning part of the auditing costs to Adkins. (*Greyhound Corp. v. Superior Court* (1961) 56 Cal.2d 355, 379-380.)

The judgment entered on May 4, 1964, as amended on December 30, 1964, including the portion thereof entered on the directed verdict, is affirmed. The judgment notwithstanding the verdict is reversed. The order granting the motion for a new trial is reversed. The order denying Lear's motion for judgment notwithstanding the verdict as to the 2156 gyro is affirmed.

³⁹Initially, Adkins sought to obtain these figures by means of interrogatories. The information sought involved a number of complex problems and, although Lear made a number of attempts to furnish the information, Adkins was dissatisfied with the answers and made motions to have them stricken. He claimed that Lear was deliberately withholding the information he sought. Finally, he moved to appoint independent auditors and to have Lear pay the cost of the audit.

The order apportioning the costs of the audit is affirmed. The order granting judgment notwithstanding the verdict as to the steel gyros is not appealable, and the purported appeal therefrom is dismissed.

Adkins shall recover his costs on appeal.

Mosk, J.

We Concur:

Traynor, C. J.

McComb, J.

Peters, J.

Tobriner, J.

Burke, J.

Sullivan, J.

(Title omitted in printing)

Page 10 of Lear's "Petition for Rehearing" in
the California Supreme Court.

[10]

I.

Restraint of Trade, the Possibility That an Applicant for a Patent May Change His Claims During Prosecution, Repudiation of an Agreement for Failure of Consideration, and the Public Policy Where Patents Are Concerned Were Not Considered by This Court in Applying the Doctrine of Licensee Estoppel.

The decision (p. 36) states that since the license agreement was not properly terminated by Lear, the doctrine of licensee estoppel is applicable and Lear is foreclosed from challenging the validity of Adkins' patent.

However, the Court has failed to consider several factors that permit Lear to contest the validity of Adkins' patent, even if the license was not terminated in accordance with its provisions.*

A. THE DOCTRINE OF LICENSEE ESTOPPEL DOES NOT APPLY WHERE THE LICENSE CONTAINS A PROVISION IN RESTRAINT OF TRADE.

The decision (p. 32) construes the license agreement [Ex. 8] to require that Lear must cease manufacturing the products of the license in order to terminate the agreement.

This constitutes a restraint of trade which is void and unenforceable under federal law, the common law, and

*Lear does not waive its contention that the license was in fact terminated in accordance with its provisions, as more fully set out hereinafter.

Order Denying Rehearing.

Order Due January 12, 1968.

In the Supreme Court of the State of California, in
Bank. L.A. Nos. 29204, 29205, 29206, 29207.

Adkins v. Lear, Inc.

Petition of Defendant and Appellant for rehearing
DENIED.

Filed, Jan. 11, 1968.

Traynor
Chief Justice